

THE GENERAL REPORT

OF THE COMMITTEE OF DIRECTION

ALL-INDIA

RURAL CREDIT SURVEY

Abridged Edition



RESERVE BANK OF INDIA

BOMBAY

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PREFACE

THE All-India Rural Credit Survey, 1951-2, was conducted under the direction of a Committee which was appointed in August, 1951, by Shri B. Rama Rau, Governor of the Reserve Bank of India. The Committee, which consisted of Shri A. D. Gorwala (Chairman), Prof. D. R. Gadgil, Shri B. Venkappiah and Dr N. S. R. Sastry (Member-Secretary), prepared a series of Reports of which *The General Report* has now been for about a year before the public. Some of the more important of the many recommendations made in this Report have gained added significance by reason of their substantial acceptance, as basis of future policy in the sphere of rural credit, by the Governments, Central and State, by the Reserve Bank itself and by various all-India bodies representative of official and non-official co-operative opinion. There has been a demand for a shorter version of the Report, not so short however as to obscure the argument or be a bare summary of facts and recommendations. This abridged edition is intended to meet that demand. It has been prepared, not by the Committee or under its guidance, but as a departmental publication of the Reserve Bank. While every attempt has been made to ensure adherence to the sense, and wherever possible even the words, of the original, the text of the fuller Report of the Committee remains the authoritative one in the event of conflict of meaning between it and the abridged version. It should also be mentioned that, in the process of curtailment, some of the chapters of *The General Report* have been combined under new titles. The chapter and paragraph numbers of the present book are therefore not the same as those of the full Report.

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1 December 1955
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I

INTRODUCTION

THE Report of the Committee of Direction of the All-India Rural Credit Survey is presented in three volumes which in themselves may be regarded as separate, but complementary, reports. The first is *The Survey Report*; the second, *The General Report*; and the third, *The Technical Report*. This is the abridged edition of Volume II or *The General Report* which contains the Committee's recommendations and an analysis of the data on which they are based.

PREVIOUS COMMITTEES OF ENQUIRY

2. It is only natural that it should be felt from time to time that all is not well with rural credit in India, and that this feeling should reflect itself in the appointment of committees of enquiry. From that point of view, the background of the present enquiry, as of several previous ones, may be said to extend to more than half a century; and the first enquiry that comes to mind is that of Sir Frederick Nicholson whose famous Report of 1895 led to the creation of co-operative credit societies in different parts of India, as a policy and programme of the Government, and subsequently to the wider establishment of the co-operative movement in India. Apart from the more chronic features of the problem of rural credit which tend to assume a familiarity that no longer disturbs, changes in aspect at times occur which demand fresh attention from the authorities. This often happens after some years of unusually low or unusually high prices. It is then thought that the conditions in which rural credit operates may have so changed since they were last examined that perhaps another assessment of the situation has become due. It is on the whole infrequent to recognize need of enquiry in anticipation of a change in the conditions. Somewhat as an exception to this, however, in August 1943 the Reserve Bank of India wrote to all the State Governments suggesting the desirability of "having

sample enquiries conducted rapidly in typical areas with a view to finding out the extent of indebtedness on the eve of the war; how it has been affected by subsequent developments; how agriculturists and moneylenders have reacted to them; what are the tendencies at work for and against the utilization of incomes for the liquidation of old debts, etc. . . .”

The need for State Governments to conduct surveys of rural indebtedness on the lines suggested by the Reserve Bank was later, in February 1944, reiterated to each of them by the Government of India. Some of the States took action. We have benefited by the reports of their committees. Among all-India committees whose reports are of special relevance to the subject of our enquiry are the Agricultural Finance Sub-Committee (1945) and the Co-operative Planning Committee (1946). To the more important of their recommendations we advert in some of the chapters which follow. Mention has also to be made of the Rural Banking Enquiry Committee which, in 1949, was appointed by the Government of India at the instance of the Reserve Bank. We shall have more than one occasion to consider that Committee's recommendations. Meanwhile, it will suffice to note that the Committee envisaged much larger accommodation from the Reserve Bank to the co-operatives. Along with the larger accommodation, they in effect added, the co-operatives might take a little more advice from the Reserve Bank.

TERMS OF REFERENCE

3. In February 1951 the Reserve Bank convened an Informal Conference of certain co-operators, economists and others, including the Registrars of some of the States, for the purpose of their helping it to define concretely to itself the policy changes, procedural reforms and other steps necessary for enlarging the volume of agricultural finance that passed from the Bank to the cultivator through the co-operative credit system. The Conference made several recommendations to which we shall refer at the appropriate places. All the short-range or procedural recommendations were duly carried out by the Reserve Bank. But of special interest here is what the Conference said about long-range policies. It pointed out how

the formulation of such policies had been handicapped on account of the sparseness of factual information on the credit needs and borrowing practices of rural families and on the working of credit agencies in different parts of the country. The Conference, therefore, went on to recommend that the Reserve Bank should undertake a rural credit survey which should include all strata of the rural population and cover problems of capital formation in the rural areas as well as the credit requirements of both economic and indigent farmers. It suggested that a small expert committee might be appointed to design and advise on the details of the Survey. The recommendation was accepted by the Central Board of the Reserve Bank; and this Committee was appointed by Shri B. Rama Rau, the Governor of the Reserve Bank of India, in August 1951 for the purpose not merely of designing a survey in the requisite detail, but also of organizing and conducting it on an all-India basis. Our terms of reference were broad and simple: “(a) to direct the planning, organization and supervision of the Survey, (b) to interpret its results, and (c) to make recommendations”.

SCOPE AND NATURE OF SURVEY

4. It is necessary to refer here to the clarification subsequently made by the Governor of the Reserve Bank regarding the scope and nature of the enquiry as viewed against the background of the policies and programmes which the Reserve Bank had meanwhile commenced pursuing in the sphere of agricultural credit. The following extract is taken from a communication of the Governor to the Government of India, a copy of which was made available to us :

“The issues [with which the Committee is concerned] and, therefore, the data on which they must be decided are economic and administrative and not just statistical; and they have arisen . . . directly out of the recent efforts to reorient the policies and activities of the Reserve Bank in the sphere of rural credit in response to reiterated demands in Parliament and elsewhere that a more constructive role should be adopted by the Reserve Bank in this context. The programme accordingly drawn up [by the Reserve Bank] is threefold. Firstly, there are certain steps which can

be taken forthwith, that is to say, without having to await either long-term policy or far-reaching organizational development. . . . Secondly, there are other important measures which, while not needing to await long-term policy, are at the same time dependent on organizational development and reform, such as the setting up of apex banks where they do not exist, strengthening of the intermediate and primary credit structure of the co-operative movement in particular States and arrangements for the training of the personnel of both co-operative departments and co-operative banks. . . . Thirdly, there is the question of the long-term policies of the Reserve Bank in the sphere of rural credit. This is integrally connected with the series of steps I have already mentioned, and the Committee of Direction is concerned with the collection of only such data as will enable it to recommend practicable policies for the future. I have conceived it as a very small committee so constituted as to provide for both administrative and expert guidance, with provision for the requisite liaison with the machinery of the Reserve Bank including its Research Department as well as with the Standing Advisory Committee which includes the members of the Committee of Direction. The terms of reference of the Committee are accordingly much wider than would be appropriate in connexion with a merely statistical investigation."

It was in the light of considerations such as these that the Committee drew up its General Questionnaire on Agricultural Credit and its schedules and special questionnaires on the 'demand' and 'supply' sides of credit; selected the regions, villages, etc., to be surveyed; organized and trained the supervisory, inspecting and investigating staff and made the other arrangements necessary for the conduct of the Survey. The main features of the design and organization of the Survey and of the steps taken at various stages of its execution are mentioned in *The Survey Report*.

THE CULTIVATOR: TERMS OF CLASSIFICATION

5. The point may here be emphasized that, for an understanding of rural credit as it operates in India, it will be

misleading to group together all those who own or cultivate a piece of land—whether this be big or not so big, and whether it be medium or small—and put all of them together as the ‘cultivator’. Avoiding the more complex types of division and classification, valid enough in their own context, but difficult to utilize in an India-wide enquiry, we arranged to list the cultivators of each of the ‘selected’ villages, at the time it was surveyed, in the descending order of the area of the land they cultivated. Each list was then made into ten equal divisions of the number of cultivators. This division is of vital importance for an understanding of what follows in the Report. It is particularly so when problems are stated or solutions suggested. For, both actual problem and proffered solution must be considered in relation to the widely separated points which the cultivator occupies in the economic scale, as judged, in this instance, by the size of the holding cultivated. Accordingly, we propose to adopt a few simple terms of classification and then use these terms with the same connotation throughout this Report. The cultivator at the very top, he who covers the first tenth in the list, we will call the ‘big cultivator’. We will then put him together with the next two ‘deciles’—the statistical term for the divisions—take the average of this group of the top three deciles, and call the person whom the average may be supposed broadly to represent the ‘large cultivator’. We will put the next four deciles together. These will then form the largest single one among the groups. Further, the group so formed will occupy the middle of the scale, since it leaves out 30 per cent above and 30 per cent below. We will call this group, with reference to its average, the ‘medium cultivator’. In many ways, the cultivator whom this group represents has special claims on our attention. He is at the very centre of rural production. He numbers two-fifths of all the cultivators. He is in charge of nearly one-third of the total cultivation. He is not so big as to present only the lesser aspects of the problem, nor so small as to grade off into the supplementary capacities of artisan, cartman or labourer. For, the smaller the cultivator, the greater the need for him to seek, in addition to cultivation, one or more of the other occupations which the village may be able to offer him. In the last three divisions, grouped together and averaged, we reach what we

call the 'small cultivator', who in order to supplement the meagre income from his farm has perforce to pursue one or more subsidiary callings; often, he combines in himself the capacities of both cultivator and agricultural labourer. It is our intention, throughout this Report, wherever the data are in a form to enable us to do so, to pay special heed to those aspects of the problem which are of importance from the point of view of the medium cultivator. That does not mean that we shall not take the small cultivator into account, either along with or, as appropriate, separately from the medium cultivator. Nor does it mean that we shall lose sight of those who are 'big' or 'large'. They are 'big' or 'large' in a very relative sense, a sense internal to the Indian village. For, in contrast with the greater possessions and stronger forces outside, the Indian cultivator as a whole is neither big nor large nor powerful.

USE OF THE TERM 'SOLUTION'

6. There are one or two other matters which it may be as well to clarify before we conclude this chapter. Our use of the word 'solution', in connexion for example with the scheme which is formulated in this volume, implies no claim except to the brevity and convenience of the use itself. But, as pertinent to the same context, one or two observations may be added. We have, in the course of our enquiry, found rural credit to be an extraordinary complex of needs, purposes, fulfilments and frustrations. It is surrounded and interpenetrated by many forces. These are economic, sociological, institutional and so on; and while some of them are obvious, many of them are usually almost unsuspected. If all these complicated factors may together be labelled the 'problem' of rural credit, it seems equally permissible, while trying to find a way through them, to think in terms of seeking a 'solution'. But, in another sense, no one scheme and no one series of recommendations can solve rural credit, any more than they can solve the social inequalities which exist in India, and any more than they can bring about, quickly, readily and effortlessly, that egalitarian distribution of opportunity or that effective correction of unequal distribution of resources which are laid down as

objectives of State policy by the Constitution of India. The particular solution we offer may be found by some too radical; by others, perhaps, not radical and revolutionary enough. To the latter we would point out two considerations we have thought fit to keep in mind. First, we postulate as obvious that the aim should be attainable and the proposals practicable from the point of view of present and potential resources in men and money. Second, in regard to what we consider a much-needed change in individual, social, and institutional attitudes towards rural needs and demands and the rural problem generally, of which credit is only one of the more obtrusive aspects, we make the fundamental assumption that such a change is to be effected by positive but constructive action within the framework of the law and the Constitution; that it is not something to be brought about by organized subversiveness of parties or dictatorial arbitrariness of Governments. To those who may think our proposals go too far, we would affirm our belief that no part of our solution is so radical as to lose sight of the ability of the State to undertake it; and we would add that anything less radical would not be a solution. We would also emphasize that our principal recommendations are vitally related to one another and together form a unit of policy and action from which no main component may be removed without imperilling the whole. If one or more recommendations are taken out of the total context, accepted and implemented, results may follow; but the results are not likely to add up to the minimum of achievement needed, nor will the scheme be the Integrated Scheme of Rural Credit.

URGENCY OF ACTION

7. If these recommendations are accepted, there is one point in regard to action on them to which we would invite special attention. In the past, many of the measures of rural credit undertaken by Government have been in the nature of remedial action to rectify damage which had already been done. Most of the steps taken in connexion with debt relief, for example, fall in this category. The pressing need today is to initiate measures which if possible will prevent damage. For that, the moment may be said to be favourable; but there is no time

to lose. The Survey indicates that an upward swing in indebtedness has perhaps just begun after a decade or more during which a process of liquidation of past debt has been made possible by relatively good prices. It is, therefore, of the utmost importance that no delay should occur in implementing these proposals for the widening and strengthening of rural credit.

ACKNOWLEDGEMENT

8. We are grateful to Shri B. Rama Rau, Governor of the Reserve Bank, for many suggestions, much patience and invariable courtesy. The responsibility for the recommendations is of course entirely our own. It should be added that the responsibility rests with us in our individual capacities. Thus, two of our members, one of them the Member-Secretary, are officers of the Reserve Bank of India; but the proposals to which they personally subscribe in no way commit, or are attributable to, that institution.

INDIA, RURAL INDIA AND THE CULTIVATOR: STATISTICAL GLIMPSES

Two recent documents of importance on India are the Census of 1951 and the Five Year Plan for 1951-6. Both are authoritative official guides, one to the ascertained statistical present, the other to the planned economic future, of the country. The Census is concerned, among other things, with what it describes as the 'pattern of living' and the 'pattern of livelihood'. The Plan is in effect concerned with the pattern of increased means of livelihood and of better standards of living: standards, that is to say, which are not only higher as a whole, but also fairer in their distribution between different classes. What place, in the patterns of living, livelihood, and increased means of livelihood, for India as a whole, does Rural India occupy? What is the place of the cultivator in Rural India?

RURAL AND URBAN POPULATION

2. There are (or, more accurately, were at the time the Census was taken) 35·7 crores of people in India. Of these, 29·5 crores, or nearly 83 per cent, live in the rural area. The remaining 6·2 crores or nearly 17 per cent, live in cities and towns. The rural population of India is thus very nearly five times ~~the~~ urban population. Or, to put it differently, *nearly five out of every six Indians live in the rural area.*

Of the 35·7 crores making up the total population, 10·44 crores, or about 29 per cent, are what the Census describes as 'self-supporting' persons. All the rest are in one degree or another dependent on the self-supporting persons; some of them are earning dependents, while the others are non-earning dependents.

Of the 10·44 crores of self-supporting persons in India, as many as 8·57 crores, or 82 per cent, live in the rural area. In other words, *even if we consider, not all Indians, but only those of*

them who are self-supporting persons, here again nearly five out of six live in rural India. Of the 3.79 crores of earning dependents, 3.51 crores, or 93 per cent, and, of the 21.43 crores of non-earning dependents, 17.39 crores, or 81 per cent, also live in the rural area.

If we take the rural population by itself, we find that 29 per cent is self-supporting; 59 per cent consists of non-earning dependents and the remaining 12 per cent of earning dependents. Self-supporting agriculturists in the rural area number 6.87 crores and constitute about 80 per cent of the total number of self-supporting persons in the rural area. In other words, *if we take rural India by itself, four out of every five self-supporting persons who live in it are agriculturists.*

But then, agriculturists—i.e., those who in one capacity or another (*rentier*, cultivator, labourer, etc.) derive their principal income from agriculture—are not by any means confined to the rural area. In fact, the Census shows that about 12 per cent of the total number of self-supporting persons who live in the urban areas are agriculturists in this sense. In other words, *one out of every eight self-supporting persons in the urban areas (in addition to four out of five in the rural area) is an agriculturist.* In that capacity, he is illustrative of many urban classes which have intimate economic ties with the rural area.

The total agricultural population of India — i.e., self-supporting persons and dependents (whether rural or urban) who derive their income wholly or mainly from the cultivation of land — is 70 per cent of the total population. In other words, *seven out of every ten persons in India are dependent on agriculture as their principal means of livelihood.* It may also be noted that out of the total net national product of India in 1950-1 amounting to Rs 9,550 crores, about half (Rs 4,780 crores) is contributed by agriculture, animal husbandry and ancillary activities.

RURAL DEVELOPMENT AND THE PLAN

3. We shall later have occasion to refer to how agricultural production is planned to be increased during 1951-6 since that has an important bearing on the problem of credit. Here we are concerned with the place in the Five Year Plan of rural economic development generally and agricultural development

in particular. The total outlay proposed on the Plan was Rs 2,069 crores. *About a sixth (17 per cent) of the outlay is on agricultural programmes, Rural Extension Service and Community Projects, while the three heads under which irrigation or power (or both) figure account for appreciably more than a fourth (27 per cent) of the total, though not all power generation of course would be of direct relevance to the rural areas. The Community Development Programme, together with the National Extension Service, is of recent but very great significance.*

On the irrigation projects, the Census Commissioner significantly comments that "it is scarcely credible but nevertheless true that the First Five Year Plan includes major irrigation projects which are calculated to bring more area under new irrigation than the entire area brought under new irrigation by all major irrigation projects which were constructed during a century of British rule."

AGRICULTURAL OUTPUT AND NATIONAL INCOME

4. According to the Plan, the pattern of the net national output is likely to alter as follows between 1948-9 and 1955-6:

| | 1948-9 Percentage to total | 1955-6 Percentage to total |
|---|----------------------------------|----------------------------------|
| Agriculture | 46.6 | 47.7 |
| Forestry and fishery | 0.9 | 0.9 |
| Mining, manufacturing and hand-trades | 17.2 | 18.1 |
| Commerce, transport, communications and other services | 35.3 | 33.3 |
| Total .. | 100.0 | 100.0 |

(Source: *The First Five Year Plan*, p. 102.)

The Plan itself adds: "It will be seen that the largest addition to national output is expected to come from the agricultural sector though, in terms of percentage increases, the greatest improvement is likely to be shown in industries organized on a factory basis." Apart from this, it will be noticed that *at the end of the First Plan, on the estimates given above, agriculture will continue to make far and away the largest single contribution to the national output. It will retain the position of being nearly equal to all the others put together.*

INCREASES IN AGRICULTURAL PRODUCTION

5. What does this expected addition to the national output, through the planned increase in agricultural production, mean in concrete terms? According to the Plan it means, mainly:

1. An additional 7.6 million tons of foodgrains (14 per cent increase);
2. An additional 0.7 million (*gur*) tons of sugar-cane (12 per cent increase);
3. An additional 0.4 million tons of oilseeds (8 per cent increase);
4. An additional 20.9 lakh bales of jute (63 per cent increase); and
5. An additional 12.6 lakh bales of cotton (42 per cent increase).

It also implies that the acreages under different crops will increase. At the end of the present Plan, the total cropped area will have increased by 100 lakh (or 10 million) acres. Only a small part of the increased foodgrains will, however, be from reclaimed land. Mainly, there is to be a programme of more intensive cultivation through irrigation (both major and minor), better seed, larger supply of fertilizers, etc.

FOOD PRODUCTION, NUTRITION AND POPULATION

6. A balanced diet requires much else besides cereals. But a minimum of cereals alone, in a minimum balanced diet, according to the Nutrition Advisory Committee, would have to be 14 oz. per adult per day. If the *per capita* (arithmetical) availability of food is to be raised to 14 oz. per day, the deficit which will face us in 1956 would be about 7.8 million tons of cereals. This is after making allowance for an increase in the population, but assuming that production remains at the 1950 level; we have seen, however, that the production of foodgrains (including gram and pulses) is estimated to increase by 7.6 million tons at the end of 1955-6. So far this may not seem too bad. But much worse is to follow. On the estimates of further increases in population made by the Census Commissioner, mere maintenance of current levels of consumption will require a stepping up of agricultural 'productivity' from 70 million tons in 1951 to 85 million tons in 1961. This

represents an increase of 21 per cent over the 1951 level. The dynamic programme of agricultural production that will be needed to achieve such an increase will not be possible without an equally dynamic programme of agricultural credit.

PEOPLE, LAND AND PRODUCE

7. In considering rural India and the place in it of the cultivator, we have to keep in mind three main aspects: the people, the land and the produce.

People

In a total rural population of 29·50 crores, the number of self-supporting persons, as we have seen, is 8·57 crores. We have also noted that as many as 6·87 crores—or broadly four out of every five self-supporting persons in the rural area—derive their principal income from agriculture. Included in this number are 1·43 crores of ‘cultivating labourers’. *This makes slightly more than one self-supporting agricultural labourer in every five self-supporting agriculturists in the rural area: ‘rentiers’ etc., are relatively so few, that the remaining four, or slightly less, are for all intents and purposes ‘cultivators’, including in that term both owner-cultivators and tenant-cultivators.*

That leaves 1·70 crores, or nearly a fifth of the self-supporting element of the rural population, whose principal means of livelihood lie elsewhere than in agriculture, though for many of them, of course, agriculture remains an important subsidiary source of income. What is the pattern of livelihood of the rural non-agriculturists? Broadly the position is that *out of every ten rural non-agriculturists, four are engaged in ‘primary’ industries, including, besides various cottage and small-scale industries, others such as processing and dairying which are dependent on agriculture; three are engaged in miscellaneous services and public administration (the latter accounting for much fewer than the former); while the other three are equally divided between village trade on the one hand and a number of different occupations such as house-building, mining, quarrying and carting on the other.*

Land and People

The Census gives a great deal of interesting information on this subject, but it will suffice to mention here that *the picture*

of the land and the people which the Census reveals is one of increasing pressure on the land by the people of India as a whole, whether they are consumers of what the land produces or are themselves producers on the land. For the latter, this, in turn, has implied an increasing inability to earn their normal livelihood from the land. That is a consideration which brings us to the cultivated land in relation to the cultivator.

Land and Cultivator

Some of the Survey data (all-India averages) pertaining to the size of cultivation of different classes of cultivators may be mentioned, subject to the caution that the variations from these for different States are considerable. The large cultivator cultivates 58 per cent of the total sown area. (Within this group, the corresponding figure for the big cultivator is 30 per cent.) The medium cultivator, numerically two-fifths of the cultivators, has less than a third of the sown area under him. There is an even steeper descent when we come to the small cultivator. Though he constitutes 30 per cent of the total number of cultivators, his sown area is just a little more than a tenth of the total area sown by all cultivators. In terms of the average area sown, the small cultivator has about three acres; the medium cultivator has slightly more than twice, and the large cultivator more than five times, that area. The area sown by the big cultivator is nearly nine times the area sown by the small cultivator.

Disposal of Produce

About 75 per cent of the total sown area is under cereals and pulses, that is to say, under 'food-crops' as defined for the purposes of the Survey. Among the many cash-crops grown on the remaining 25 per cent of the sown area, oilseeds occupy the largest single place; about 38 per cent of the total area covered by cash-crops is under oilseeds. The percentage of area under cash-crops varies very considerably from region to region. A significant fact is that, though cash-crops are grown on a little more than a fourth of the total area, their gross value is roughly equal to that of the food-crops grown on nearly three-fourths of the area. Slightly less than one-seventh of the total area under cash-crops is accounted for by fodder, an index to the

importance of animal husbandry in the rural economy. As broad general percentages (derived for all crops and all classes of cultivators all over the country), it may be mentioned that about 35 per cent of the total production is sold by the cultivator, a large part of it (about 24 per cent of the total) to traders and commission agents, 15 per cent disposed of in kind as wages or rent, and nearly 8 per cent utilized as seed.

The distinction between large tracts of the country which are 'subsistence' (broadly, non-surplus food-crop) economies and certain other areas which are, in varying degrees, 'cash' (broadly, commercial-crop or surplus food-crop) economies is clearly brought out by the Survey. In about one out of every three of the districts surveyed, less than 15 per cent of the total produce was sold to professional traders and commission agents. This was typical of the subsistence areas. On the other hand, in about one out of every eight districts, more than 45 per cent was sold to professional traders and commission agents. This was typical of the cash-crop areas. The average value of the produce sold by a cultivator in these areas was nearly six times the corresponding figure for the subsistence areas.

Storage, Marketing and Processing

The preponderance of sales within the village itself—as distinguished from sales at the market town—is apparent from the Survey. In very nearly two-thirds of the sale transactions entered into with traders etc., the commodity was delivered in the village itself. Along with this fact must be taken into account certain others. There is little available to the cultivator either by way of storage or of orderly marketing arrangements designed for his benefit. Co-operative marketing societies are few. Out of the 75 districts surveyed, in only 5 did the produce sold through co-operatives exceed 1 per cent of the total sales to all agencies. Moreover, if the cultivator wants credit before or after the harvest, the co-operatives are of little or no help to him in most areas. Here again it is to the trader or to the moneylender (who is quite often also a trader) that he has for the most part to resort. Scarcely less important than the marketing of produce is the processing of produce for sale: thus, paddy has to be husked and cotton ginned; the part which co-operatives play in processing is infinitesimal.

Roads

Good roads are essential for the proper marketing of produce. The absence of any communications classifiable as roads in large rural tracts of the country is reflected in the low all-India average of 0·22 mile of road per square mile. This, it has been pointed out, is less than the standard (0·30 mile of highway per square mile) for a 'desert area' in the United States.

GLIMPSES OF THE OPERATIONAL PICTURE: RURAL CREDIT AND THE CO-OPERATIVE AGENCY

IN this chapter, we propose to illustrate by brief extracts from various sources the actual working of different types of co-operative societies in different parts of India. The selection does not in the least purport to be representative of the levels of co-operative development attained in the areas mentioned in some of the illustrations. Nor is the object one of conveying by this means some indication of the proportion of success, failure or just mediocrity with which co-operative societies, as a whole, operate in India. The source from which each extract has been taken is indicated at the end of it; where the source is a published document, its particulars are specified. Other sources used are: the material collected by the officials of the Rural Credit Survey during the course of their investigation (R.C.S.), data in the possession of the Agricultural Credit Department of the Reserve Bank (A.C.D.), and replies to our Questionnaire from either official respondents (O.R.) or non-official respondents (N.O.R.).

SINGLE-PURPOSE PRIMARY CREDIT SOCIETIES

“A thrift and credit co-operative society in the Hoshiarpur District of Punjab, was registered in 1940; it is classed ‘A’. On 30 June 1951 its membership was 103 and it had a working capital of Rs 7,736. Loans advanced during the year amounted to Rs 3,311. The society has been working at a profit. Its membership is drawn from one tribe, a fact which helps in the maintenance of cordial relations between members. Though the holdings of members are small, the land is fertile. Most of the members follow subsidiary occupations. Recoveries of the society from members have been satisfactory” (R.C.S.).

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“A society in a Part A State was registered in 1940. In 1950-1 it had a membership of 29 and a working capital of Rs 1,049. There are heavy overdues; no attempts have been

made to recover them. The managing committee sanction loans only to their relatives and not to those who really deserve them. The loans are not utilized for the purposes for which they are supposed to be given " (R.C.S.).

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"The reason for the very low borrowing capacity of a certain society (with unlimited liability) in Bombay is that the value of the assets of the society is very small. The village is an *inam* village and the majority of the members are tenant-cultivators. This is a major obstacle in the way of the expansion of the society, because loans can be advanced either against the security of land or against the guarantee of two sureties. Very few members own land; most of them have themselves borrowed and cannot stand as sureties till they repay their own loans " (R.C.S.).

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"A grain bank was registered in the Nizamabad District of the Hyderabad State in 1943 with a membership of 365 and share capital of 1,326 maunds of grain. Loans are made in kind and also recovered in kind. Even the salaries of the staff are paid in kind. The bank has recently purchased a plot of land for constructing its godowns. This is a good example of a type of grain bank which serves the credit needs of 'subsistence' economy areas in certain parts of India " (A.C.D.).

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"The *sarpanch* of a primary agricultural credit society registered in 1923 in a Part A State is a moneylender. . . . The *sarpanch* of another society, also in a Part A State, is an ex-moneylender. . . . The secretary of a primary agricultural credit society in a Part B State does private money-lending to supplement his income; he has considerable influence on the members and misuses his powers; for example, instances have come to light of his reluctance to disburse loans (even when sanctioned) to members who happen to be his private debtors " (R.C.S.).

MULTI-PURPOSE PRIMARY CREDIT SOCIETIES

"Registered in 1919, a co-operative credit society in the Salem District, Madras State, which has a jurisdiction covering

3 villages, had a membership of 1,151 on 30 June 1952; its paid-up share capital and reserve fund amounted to Rs 14,754 and Rs 14,918 respectively. It is an outstanding feature of the society that it is working entirely with its own resources in the shape of deposits without having to borrow from the central bank. The society has constructed a godown for the storage of members' produce" (A.C.D.).

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"The Alamuru Co-operative Rural Bank, Andhra State, is a society working in an area irrigated by canals of the Godavari. It covers 13 villages with a total population of 40,000 (or about 8,000 families) and has the relatively large membership of 4,496. A remarkable feature is that tenants-at-will and labourers account for as many as 2,906 members. By itself giving small loans to its more needy members in the slack season for purchase of cloth and rice, this bank has been able to prevent landlord-moneylenders and *sowcars* from exploiting labour through cash and grain loans. The bank has taken on lease 500 acres of irrigated land from Government at a fixed rental of Rs 10,000. The land is made available for cultivation by landless labourers. This has had the effect of loosening the hold which contractor-lessees previously had on these labourers, for the land in question was previously in the hands of such lessees. Artisans, brick-workers, etc., are also given loans" (N.O.R.).

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"The establishment of the Z Multi-purpose Co-operative Credit Society in a big village in a Part A State was largely due to the apprehensions of local traders regarding the effect on their business of the progress of a co-operative multi-purpose society in the locality which was showing some signs of success. It was not difficult to raise share capital or to attract deposits for society Z; in due course the society was also able to obtain from Government the authority to distribute foodgrains, sugar, kerosene and cloth. It started making good profits in the distribution work. But the taluka officer discovered, in one of his visits to the shop run by the society, that there was a shortage in the stock of foodgrains. Orders were, therefore, passed to cancel the agency of the society to distribute foodgrains. It is

also reported that in the meanwhile prices of *gur* had gone down and some members of the managing committee who were traders of *gur* got rid of their stocks by selling *gur* to the society and back-dating the entry. Consequently, the society incurred a loss" (R.C.S.).

FARMING AND IRRIGATION SOCIETIES

"A co-operative farming society has been started in the Karnal District (Punjab). The society, with ex-servicemen as members, is given 800 acres of scrub land on lease by the Punjab Government under the Land Utilization Act. With the help of two tractors and two tube-wells, this land is almost wholly cleared and levelled. Besides, the society also owns a plot of 64 acres in which sugar-cane is raised."¹

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"A lift-irrigation society was registered in Saurashtra in 1948. It had 53 members and a paid-up share capital of Rs 17,400. The Government have given a loan of Rs 80,000. The society has erected a power-house for enabling its members to lift water from their wells by electric power. The cost of irrigation has thus been reduced from Rs 16 to Rs 4 per acre" (A.C.D.).

MARKETING OR DISTRIBUTION SOCIETIES

Primary and Taluka levels

"Registered in 1917, the Gadag Cotton Sale Society in the Bombay State is one of the biggest societies of its kind in India. During 1950-1, 40,408 *dhokras* of the value of nearly Rs 1 crore were sold on which a commission of Rs 58,460 was earned. Almost 50 per cent of the *kapas* brought to the Gadag market is sold through the society. It has been paying regularly a dividend of $6\frac{1}{4}$ per cent on the shares. The society is the sole agent of the Government for the distribution of seeds in three talukas. To be an effective seller of the best types of seeds, the society keeps in close touch with the co-operative ginning society which is situated in the same compound and in which it holds one-third of the share capital" (A.C.D.).

“ The Salem Co-operative Marketing Society in the Madras State, was registered in 1936. Its paid-up share capital amounted to Rs 38,000 on 30 June 1952. During 1951-2 the sales of groundnut and cotton amounted to Rs 16.15 lakhs and Rs 8.94 lakhs respectively. The society owns two spacious rat-proof godowns constructed with the help of a Government loan of Rs 30,000 and a free grant of Rs 10,000 ” (A.C.D.).

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“ Membership in these societies [three marketing societies in a Part A State] is open to societies and to individuals over the age of 18. This means that even merchants can come in and so far as my information goes, some merchants are there already in some of the societies; loans against the pledge of produce are given only to members and it is likely that some merchants have become members of these societies to take advantage of the facility ” (A.C.D.).

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“ It is possible that traders may get into the marketing societies as members; for example, in the Y Co-operative Marketing Society [in a Part A State] some traders became members and tried to export onions through the marketing society. But eventually these traders were removed from membership ” (O.R.).

Regional and Apex levels

“ The Southern Gujarat Co-operative Cotton Sale and Ginning Societies Union, Surat (Bombay State), was organized at Surat in 1930 with the main object of facilitating the sale of cotton of the cotton sale societies operating in southern Gujarat. At the end of 1950-1, 43 societies were affiliated to the union of which 31 were cotton sale societies, 5 ginning and pressing societies and 7 other types of societies. Nearly one-fourth of the cotton produced in the area is sold through the union which has succeeded in establishing direct contacts with big buyers and textile mills ” (A.C.D.).

PROCESSING SOCIETIES

“ In 1933, the press-owners of Surat formed an association and decided to raise the rate for pressing cotton. The cotton

sale societies of Chorasi and Olpad talukas in Surat District being refused by the press-owners to have their cotton pressed at the old rates, were forced to organize a pressing society, viz., the Farmers' Co-operative Cotton Ginning and Pressing Society. The press-owners of Surat lost for all time the business of pressing about eight to ten thousand bales every year and had further to agree to accept fair rates for pressing cotton even from other farmers. The society has served its members well by pressing their cotton at a fair and reasonable rate and also offering them rebate out of profits at the end of each year on the basis of cotton pressed with the society. . . ."¹

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"The Pravara Sahakari Sakhar Karkhana at Pravaranagar, Ahmednagar District, Bombay State, was organized in December 1948 by sugar-cane cultivators in the Pravara Canal area in the Ahmednagar District with the object of starting a sugar factory in which would be used the sugar-cane which they themselves grew. Two important items of assistance were a contribution of Rs 6 lakhs by the State Government towards the share capital of the society, and a loan from the Industrial Finance Corporation to the extent of Rs 20 lakhs for buying machinery. While some of this assistance was yet to be received, the State Co-operative Bank sanctioned a temporary loan of Rs 20 lakhs to enable the society to install the machinery in time for the factory to get into production without losing any part of the crushing season. Since then, the State Co-operative Bank has also been granting accommodation to the society for operational expenses; the operative credit limit was Rs 19 lakhs on 30 November 1952. During the year 1952-3 the society crushed 57,722 tons of sugar-cane belonging to members and 2,588 tons belonging to non-members. The quantity of sugar produced was 64,362 bags. The society provides crop loans to such of its members as are not separately financed by co-operative credit societies" (A.C.D.).

MILK SUPPLY AND DAIRYING SOCIETIES

"Registered in 1927 as a central organization for the primary societies functioning round about Madras City, the Madras

¹ *Some Typical Non-credit Societies in India*, Reserve Bank of India, pp. 1-2.

Co-operative Milk Supply Union steadily developed its activities. It is estimated that about one-fifth of the demand of the City is met by the union. Its success is mainly attributable to the direct assistance given by the State Government and to many complementary schemes for increasing the production of milk in the State" (A.C.D.).

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"The Kaira District Co-operative Milk Producers' Union was registered in 1946 as a result of a scheme launched by the Government of Bombay under which milk produced in the Anand area is arranged to be transported to the City of Bombay and distributed there. The union dispatches on an average 60,000 lb. of pasteurized milk daily to Bombay. The total value of milk sold during 1951-2 amounted to Rs 47.60 lakhs" (A.C.D.).

CENTRAL BANKS

"A district of a Part A State covers 6 tehsils. It has 4 co-operative central banks, each of which serves one or two tehsils. None of the 4 central banks has either adequate owned capital or appreciable deposits. The paid-up share capital of one of these central banks is Rs 1 lakh while that of the other three banks put together is only slightly more than that. The total working capital of all the banks together was less than Rs 35 lakhs and the total of loans and advances outstanding at the end of the year less than Rs 25 lakhs" (A.C.D.).

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"There is a certain amount of disinclination on the part of central banks to finance these societies [tenants' and field labourers' societies] as the majority of their members are landless labourers who cannot offer tangible securities."¹

¹ Report on the Working of Co-operative Societies in the State of Madras for the year ended 30 June 1948, p. 48.

THE SOCIOLOGICAL BACKGROUND: SOME SIGNIFICANT SIDELIGHTS

IN order to obtain the right perspective it is necessary to place the 'operational picture' of the last chapter against the social background of rural India. This is more important than almost anything else for a true understanding of the working of rural credit, co-operative, governmental or other. In the social structure and social dynamics of the village may be discerned both a diversity from region to region and, running through the diversity, a large element of uniformity over the whole of India. It is needless for our present purpose either to enter into the details of diversity or to analyse the causes of uniformity. It will suffice to say at this stage that the largest single sociological aspect, which is the institution of caste, and the largest single economic factor, which is the penetration of the industrialized economy of the cities, have combined to produce broadly the same results throughout the country-side; and that the regional variations are largely related to variations in the nature of the class structure on the one hand and in the character of the agricultural economy on the other. The contents of this chapter are drawn from different sources. Where the source is published material (or, as in one instance, an unpublished thesis which we have been permitted to use), author and document are named; where we have drawn from replies to our Questionnaire sent by non-official respondents, the nature of the source, but not the name of the writer, is indicated by the same symbol (N.O.R.) as has been used in the last chapter.

THE SOCIAL STRATIFICATION

"The existing rigid social stratification should not be forgotten. For centuries, landowners and tenants may live nearby but have no close intimacy for sympathetic understanding of their day-to-day needs. Nearness alone does not impart mutual

knowledge. Again, close contacts among castes create an affinity which cuts across co-operative loyalties. . . . Backward communities are tied to their old-world ceremonies, priests and caste rules. Their range of contacts is little. They are less susceptible to new ideas. They have little desire to improve their standard of life " (N.O.R.).

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"The directors of [certain co-operative] societies are Kammas, Reddis, Brahmins (top communities in villages) and they do not take even on their staff members of any other communities. If a Reddi is the president of the society, all the members of the staff are Reddis. If the president is a Brahmin, all the members of the staff are Brahmins " (N.O.R.).

OWNERSHIP OF LAND AND VILLAGE LEADERSHIP

"In general, tenancy regulations are unworkable because the landlord is still left in a powerful position. Often he is the only literate man in the village. In the Punjab, where tenants who have tilled a certain plot for five years were finally given permanent tenure, I have been in villages where the records show that no tenant has tilled the same piece of land for more than two or three years! The village head and his associates, who owned most of the land, were able to juggle the books because he alone knew how to read them."¹

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"The co-operative organization today contains middle class leadership of varying and conflicting interests. It is only in India one finds . . . mill-owners, *rentier* landlords and traders being the leaders of co-operative organizations and yet we hear not a whisper from any quarter against this entry of inimical elements in the co-operative body " (N.O.R.).

CASTE AND THE VILLAGE ECONOMY

"The power of age-long custom has confined the business of purchase of agricultural requirements and the sale of agricultural produce to castes and tribes other than those whose traditional occupation is husbandry and the accumulated

¹ Chester Bowles, *Ambassador's Report*, p. 185.

knowledge and experience possessed by members of those castes and tribes are not readily available to others.”¹

OFFICIALDOM AND RURAL INDIA

“ . . . Fully aware of my own lack of intimate knowledge of Indian village life, I began to realize that many of the Indian officials from Delhi on down through the state capitals to the villages themselves, brilliantly educated and competent in Western ways, were almost equally estranged in one way or another, from village India.”²

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“ . . . Though it is now a truly Indian Government, the people see the same officials in charge of administration, and often react with the same non-committal attitude as they previously used. But it is not all due to the people's attitude. Government offices are places of forms, unintelligible red tape and waiting-rooms that the uninitiated and uneducated feel it is best not to approach. . . .”³

SOME INDIGENOUS INSTITUTIONS OF CREDIT

“ In this tract [Tambraparni area of Tirunelveli District, Madras State], the chit funds meet two legitimate demands of the ryots : the necessity for a lump sum to meet some unforeseen expenditure and the provision of a form of saving . . . Even among the well-to-do classes this method of finding a lump sum has been popular both as a method of saving and as a method of loan on easy terms to meet extraordinary and special expenses. . . . Charitable institutions like hospitals and schools have been started and laid on a sound financial basis by means of these funds. Many instances of individuals having been helped in this way with initial capital for business can be cited in this tract. . . .”⁴

VILLAGE STUDIES

Change in the leadership of a Mysore village

“ Hattarahalli⁵ is a village of average size (population 620) about 15 miles from the city of Bangalore in southern India.

¹ *Report of the Royal Commission on Agriculture in India*, 1928, p. 470.

² Chester Bowles, *Ambassador's Report*, p. 186.

³ Adrian C. Mayer, *Land and Society in Malabar*, pp. 143-4.

⁴ Dr V. Krishnan, ‘The Tambraparni Ryot’, an unpublished thesis.

⁵ The author has used a fictitious name for the village.

For 70 years or more, it has been affected by urban influences reaching out from the city. Schools, courts of law, cinemas, hotels, military camps, railroads, buses, and motor lorries have brought about changes in almost every aspect of life. To the people of Hattarahalli, the most important of these changes are in the caste and character of those who control the social and economic life of the village. . . .

"The party opposing the *patel* was a heterogeneous collection of individuals from a number of different castes. The members of this group derived their unity from certain ideals of democracy and social equality which they held in common. These ideals were derived from Government schools, from experience in the nearby military camp during World War II, and from their knowledge of the urban culture of Bangalore. . . ."¹

A village in Rajasthan: A study in rapid social change

" . . . Up till four years ago, the village was dominated by the palace not only physically, as it still is, but in every sphere of its social life. Fatehpura² was the seat of a major jagirdar of Udaipur, the semi-independent ruler of a considerable tract of land granted to his forefathers by Rana Partab. . . .

"Today, the scene is very different. The palace stands practically empty, with none of the hustle of the old days. Its magistrates' court is closed; the revenue officers' headquarters are elsewhere; the police station, the hospital, the school are all Government-run now. . . .

"As I have tried to indicate, in a complex, reciprocally interacting community like this big village, the emergence of leaders, of social sanctions and of new social forms of expression of opinion cannot be accomplished by Act of Parliament, however well thought out. It is an organic process, the product of a multitude of thrusts and stresses. In Fatehpura, as in villages all over Rajasthan, the process is going on apace."³

Village structure in North Kerala

" . . . It would nevertheless be difficult to find a village where very many examples of the interdependence of castes

¹ Alan R. Beals, *Economic Weekly*, 25 April 1953.

² The author has used a fictitious name for the village.

³ G. Morris Carstairs, *Economic Weekly*, 26 January 1952.

do not survive not only in its economic but in its more ritual aspects. . . . Convention is too strong to allow them to fall into disuse for many years to come. Many families are still bound together in their ancient master-servant relationship. In villages near towns, increasing numbers of people have abandoned traditional occupations for labour in industry; but there are few instances of Hindus entering occupations proper to castes other than their own. . . . ”¹

Bhil villages of Western Udaipur: A study in resistance to social change
 “. . . Villages in this Bhil country are quite unlike those of the plains. Bhil houses are built at some distance from each other. . . . The *mukhi* represents the village in all dealings with other villages or with the ruler’s representatives. His authority is unchallenged—provided that it is sensibly exercised. . . .

“So long as a feud exists . . . the parties to it . . . will not sit nor eat nor smoke together . . . It is this continuing threat of the recourse to violence which stimulates the *mukhis* and the neighbours of the families concerned, to work for a settlement: and until this has been reached, in the presence of a *panchayat* of responsible caste fellows, and the disputants have eaten opium together, to symbolize the end of their enmity, the dispute will not be over—no matter what the official decision has been.”²

The social structure of a Tanjore village

“. . . Kumbapettai is a fairly typical ‘Brahmin village’. One and a half miles square, with a population of about 1,200, it lies on a bus route 8 miles from a town. . . .

“Today, however, the village structure presents no longer a nice balance of unities and antagonisms between caste and kinship groups in a self-sufficient little republic. For obviously, the economic basis of the system has been fundamentally upset within the last 50 to 70 years. It is impossible to enumerate all the ways in which this has happened, but we may mention a few. Most important in Kumbapettai is the departure to urban work of a large number of Brahmin families and

¹ Eric I. Miller, *Economic Weekly*, 9 February 1952.

individuals. A few of these have sold their lands to middle class trading families of the nearby town; the majority leave their empty houses locked and return after each harvest to collect their rents, now in cash. . . . Relations between absentee landlord and tenant are unsatisfactory. Often, the landlord barely knows his tenants by name and knows nothing about their circumstances or the business of cultivation. . . ."¹

Technology, credit and culture in an Indian village

"Formerly a tribal people, the Kota of the Nilgiri Hills are now subject to the same forces which affect villagers in south India generally. The seven Kota villages are interspersed among those of the ancient inhabitants of the Nilgiris. . . .

"In place of the old economic dependence on the supply of Badaga grain, the Kota villager is now dependent on the supply of fertilizer available from the factory, on the purchasing power of his money, on the vagaries of supply in the ration shop. . . ."²

Social structure and change in a U.P. village

" . . . No one will be surprised if a village whose social relations are structured in the manner of Kishan Garhi does not rapidly develop an active village committee (*gaon panchayat*) or contribute to an effective rural court (*panchayati adalat*) as prescribed in the U.P. Panchayat Raj Act. The village committee that was officially elected includes a fair sampling of many castes. But that committee never meets. The group that actually considers public issues and uses the new authority granted by the Act is none other than the old informal Brahmin caste council, representing one-quarter of the people and one-half of the land rights. . . ."³

Social structure in the Punjab

" . . . Relationships between Government representatives and the villager before partition were effectually limited to tax collecting and policing. With rationing, and especially since partition, there has been an increase in Government services and contacts in the village both in East and West Punjab.

¹ Kathleen Gough, *Economic Weekly*, 24 May 1952.

² David G. Mandelbaum, *Economic Weekly*, 15 August 1952.

³ Mckim Marriott, *Economic Weekly*, 23 August 1952.

Nevertheless, the opportunities given to the villager for participating in Government have been practically nil. This fact is coupled with the strange paradox that the Punjabi villager is often an expert politician. . . . he has a shrewd sense of positive leadership. During the last hundred years, the major outlet for these capacities has been in the communal organizations, all of which have had their political as well as their religious side. . . . Lacking a place in governmental organization, Punjabis have built their own organizations which penetrate to the village level as Government does not. . . ."¹

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THE BACKGROUND OF ECONOMIC ACTIVITY

WE have seen that nearly 70 per cent of the total population of India is either engaged in agriculture or dependent on those so engaged; agriculture and activities ancillary to it account for about 50 per cent of the total national income. The gross value of all agricultural commodities produced during 1950-1 is estimated by the National Income Committee at Rs 4,866 crores (exclusive of non-reporting areas). Foodgrains, including cereals, pulses and gram, account for nearly 50 per cent of this. The balance pertains to the principal cash-crops, miscellaneous cash-crops, and fodder and straw. The total sown area during 1950-1 was about 32·7 crore acres. Foodgrains were grown on 24·4 crore acres, while cash-crops were raised on only 8·3 crore acres. Nevertheless, the gross value of cash-crops roughly equalled the gross value of food-crops. The total production of foodgrains in the country during 1950-1, excluding 'other cereals', was estimated to be 507 lakh tons.

AGRICULTURAL PRODUCTION

2. The First Five Year Plan seeks a substantial increase in agricultural production. The Plan contemplates a total outlay of Rs 360·4 crores on agriculture and community development. Projects confined to irrigation account for another Rs 168 crores, while multi-purpose projects, which combine power and irrigation, involve a further outlay estimated at Rs 266 crores. The total cropped area in the country is expected to increase by about 100 lakh acres at the end of the Plan's initial five years. Projects for land reclamation and land development alone account for nearly three-fourths of the increase forecast. The total production of foodgrains in the country is expected to be raised by about 7·6 million tons over the

1949-50 level. What should be noted in this context is that all schemes of increased agricultural production will require for their successful working a very considerable expansion of the credit facilities now available to the cultivator

3. The Plan also envisages a large increase in the production of chemical fertilizers and farmyard manure; measures have been suggested to ensure that a larger number of cultivators are able to obtain pure seed direct from the State. With caution as to the limitations within which all-India averages are significant, mention may be made of the Survey data on the annual cash expenses of the cultivator on seed and manure. The relevant amounts are about Rs 29 and Rs 23 forming about 10 per cent and 8 per cent of the total cash farm expenditure of an average cultivator. An average additional expenditure of about Rs 4 per cultivating family would be necessary if note is taken of the value of the increased quantity of chemical fertilizers planned to be produced in the country. It is difficult to estimate the additional expenditure on the purchase of improved seed. At present, an average cultivator spends on purchased seed roughly half the money value of the seed he obtains from his own farm.

4. It may be of interest at this stage to consider the part—admittedly very small—played by Co-operation in the sphere of agricultural production, i.e., in farming principally, and secondarily in irrigation etc., as aids to better production. Co-operative farming, on a more or less experimental scale, has been initiated by certain State Governments such as Bombay, Madras and Uttar Pradesh. Various types of Government assistance have been extended to these societies, e.g., free services of trained personnel and provision of free grants and interest-free loans. In most States there are irrigation, seed and similar societies connected with agricultural production, though not all those registered can be presumed to be functioning. Reference may also be made to the vegetable and fruit growers' societies existing in many States. Most of these concern themselves with aspects of production rather than those of marketing, the latter presenting many difficulties which they often find themselves unable to surmount.

COMMUNICATIONS AND TRANSPORT

5. As will be seen later, it is usual for a substantial portion of the crop to be sold in the village itself and to be handed over to the trader shortly after the harvest. In other words, there is great lack of organized marketing facilities for the cultivator. The inadequacy extends to transport and communications. Cheap and adequate transport, which is essential for advantageous marketing, is impossible without good roads. Few roads exist in rural India; fewer still from village to marketing centre; and those which do exist are little more than *kutchas* roads unusably bad in the rains and unspeakably bad all the year round. The means of transport of agricultural produce from village to market is still largely the bullock cart. Mechanized transport has no present relevance except for the relatively few villages which, being very near the bigger marketing centres, happen to be served by fairly good roads. In such cases, *ad hoc* mechanized transport is usually arranged by the larger cultivators or by the traders who take delivery of the produce in the village.

STORAGE

6. The lack of storage is part of a wider deficiency, namely, the lack of orderly marketing, co-operative or other. Such storage as exists is mostly for cotton, jute and similar commercial crops and is largely in the hands of traders and processing concerns. Before the Second World War, the storage available was largely in the form of private godowns owned by the more substantial cultivators, the wholesalers, etc. During the war, the different Governments requisitioned a large number of private godowns for stocking their foodgrains; they also constructed a certain number of new godowns. According to the information available for 1950, the storage capacity of godowns for foodgrains in the possession of the Central Government was 65,000 tons, and that of godowns in the possession of the State Governments 1,212,000 tons. According to the data given in the *Report of the Foodgrains Investigation Committee* (1950), it would appear that the capacity of private storage made available to Government was roughly equal to that of godowns constructed by Government. In the total picture, the storage capacity of

co-operatively-owned godowns occupies little more than part of a corner. Some of the State Governments (e.g., Bombay, Madras and Orissa), advance loans and give subsidies to co-operative societies for the construction of godowns.

7. In an enquiry conducted by the Reserve Bank in 1952, information was collected by means of a questionnaire as to the state of existing godowns and their suitability for conversion into licensed warehouses. The replies indicated that some of the Government godowns could be readily converted into regular warehouses so far as the technical quality of the accommodation was concerned. Some, however, are not suitable for various reasons. The godowns owned by co-operatives were reported in most instances to be not fit for conversion into warehouses, the generality of them being makeshift structures built out of makeshift resources. Private godowns were as a rule inconveniently situated (e.g., in residential houses) and in many cases were structurally defective. The replies further indicated that in very few marketing centres in the country could storage accommodation be said to be anywhere near adequate. At the same time, the need for an extensive network of godowns and warehouses and for the establishment of 'licensed warehouses' at suitable centres has been emphasized by various committees and commissions. For obvious reasons, produce in a good godown is produce which can attract commercial credit from banks. Moreover, under section 17(4) (d) of the Reserve Bank of India Act, the Reserve Bank will accept as collateral, not the goods pledged with and in the custody of the scheduled or state co-operative bank, but only the title to goods (i.e., receipts issued by independent warehouses). In the virtual absence of licensed warehouses, the section has hitherto remained inoperative. Seven of the State Governments, namely, Bombay, Bihar, Hyderabad, Madras, Madhya Pradesh, Mysore and Travancore-Cochin have passed Warehouse Acts on the lines suggested in a Draft Warehouse Bill circulated by the Reserve Bank to all State Governments. However, with the exception of a few isolated instances in Madhya Pradesh and Bombay, no licensed warehouses have so far been established in any

AGRICULTURAL PROCESSING

8. After a crop is harvested and before it reaches the consumer, it is subjected to one or more forms of processing which differ for different crops and for different uses and preferences on the part of the consumer. In the more prevalent forms of processing of the major crops there is a broad uniformity in this country, coupled with considerable diversification in the detail of operation. What is, however, most noteworthy is the fact that the main agencies engaged in processing are private agencies over which the cultivator has no control. The part played by co-operatives in the processing of the more important crops is insignificant. Very few indeed of the 3,000 odd cotton ginning and pressing factories are owned by the producers themselves on a co-operative basis. There are, however, individual instances of co-operative societies which have rendered useful service in the sphere of processing. Examples are the Farmers' Co-operative Cotton Ginning and Pressing Society at Surat and the Pravara Sahakari Sakhar Karkhana at Pravaranagar, Bombay State, to which we have made a reference in Chapter 3. The origin of some of the co-operative cotton ginning societies is to be found in the hostility of private ginners and the fact that in certain instances they had combined to raise the ginning charges for *kapas* marketed through co-operative cotton sale societies.

MARKETING

9. If we take all cultivators and all crops all over the country, and consider that portion of the produce which the cultivator parts with—that is to say, by and large, the 'marketable-surplus'—would it be possible to say with some certainty on the basis of the data collected by the Survey, whether the bulk of this is sold by him in the village or outside the village? Information could be obtained for only 63 per cent of the transactions of sale-cum-delivery; and, in regard to these, it was found that 65 per cent reached completion in the village itself. For the first five deciles of cultivators, as also for the remaining five, the proportion of sales in the village was round about 65 per cent of the total. Since the figure is thus applicable to the larger producers as well, it would be reasonable to infer from

it that a substantial part of the produce is usually sold in the village itself.

10. So much for where the produce is sold. Of equal importance is it to have some idea of to whom it is sold. The data of the Survey indicate that, with the exception of a few of the selected districts, the buyers at the first stage are largely traders and commission agents, and, to a very limited extent, manufacturers. What is sold to them far exceeds that which is sold to Government and co-operatives or direct to consumers, even if all the three latter are put together. Taking the selected districts as a whole, the *value* of the produce sold to traders and commission agents formed about two-thirds of that to all agencies. As a working conclusion, therefore, it would not be far wrong to assume that a substantial portion of the produce is purchased in the village itself by traders in agricultural commodities.

11. What is the position occupied by the trader in relation to the fulfilment of the credit requirements of the cultivator? The borrowings of cultivators from traders and commission agents were 6 per cent of the total borrowings of cultivators from all sources; while the borrowings from moneylenders, both agriculturist and professional, were 70 per cent. It was found in the enumeration of 'supply agencies' that 37 per cent of the village moneylenders and 83 per cent of the urban moneylenders were also traders. It was further found that 58 per cent of the total amount borrowed from professional moneylenders was from professional *village* moneylenders, 17 per cent was from professional *urban* moneylenders, and the balance from moneylenders whose place of business was unspecified. Then, there are the non-professional moneylenders, usually the large cultivators between whom and the professional moneylenders there is a marginal 'blurring' in which it is difficult to distinguish one from the other. It is revealing that among village moneylenders (as a whole) 82 per cent, and among urban moneylenders (as a whole) 49 per cent, were reported to be agriculturists. We thus arrive at a picture, of which only the broad outlines emerge from the Survey, of a large body of agriculturist and professional moneylenders,

rural and urban; the distinguishing feature of this body is the combination of the activities of moneylending and trading; but, at the margins, this group of trader-cum-lender shades off into a relatively small group of non-trading village moneylenders on one side, and a still smaller group of non-trading urban moneylenders on the other side. Since we have earlier concluded that the larger part of the produce may be assumed to be sold in the village to the trader, it seems reasonable to take that conclusion a step further and make the working assumption that the marketing of agricultural produce is largely in the hands of a body of men who, as distinguished from Government and the co-operatives, represent private interests, and who control both the sources of credit and the disposal of the produce. Often enough, therefore, the cultivator's position is that of having to bargain, if he can, with someone who commands the money, commands the credit, commands the market and comes with the transport.

12. A very brief account may now be given of markets and marketing practices in India. There are three types of markets, namely, *hats* and *shandies*, wholesale markets or *mandis* and retail markets. Generally, it is with the first type of market that the primary producer comes into contact. It is estimated that there are over 22,000 *hats* and *shandies* in the country. Their organization and control is usually vested in the taluka and village officials. In some States, the *hats* are under private control. A feature common to most States is that there is little or no control over malpractices. The total number of *mandis* in India is estimated at over 1,700, the largest number being found in Uttar Pradesh. They may be owned either by private persons or by local bodies. The assembling and distribution of agricultural produce is generally financed by *adatyas*, shroffs, banks, grain trade associations and exporters. Sale by auction or by open agreement does not obtain in most *mandis*, the exceptions being the regulated markets controlled by the State. In wholesale markets, including sometimes those which fall in the category of regulated markets, many malpractices obtain, e.g., manipulation of weights and scales against the seller and arbitrary deductions for religious and charitable purposes.

13. A certain amount of supervision has long been exercised by local authorities over markets in their jurisdiction. More systematic regulation by the State is relatively recent. Not more than eight States appear to have passed legislation for the regulation of markets. The object of the establishment of regulated markets is mainly to counteract evils such as unauthorized market charges and incorrect weights and measures. While standards of marketing have improved in most of the relatively few regulated markets which have been established, a number of malpractices still exist even in these. Stricter enforcement requires proper personnel and a great deal depends on those selected for appointment as market *darogas*, secretaries or superintendents and on the composition of the committee which controls them.

14. A few—very few—fairly successful co-operative marketing societies there do exist in India; some of these may be significant pointers to the lines on which future progress is possible; but the part which they occupy in the total picture is wholly insignificant. The total number of all types of marketing societies registered is roughly over 10,000, of which those in Uttar Pradesh, Bihar, Madras and Bombay constitute about 96 per cent. Lack of godowns of their own is one of the disadvantages which curtail their ability to compete with the trader. It follows that little is, or can be, attempted by way of pooling, grading and processing of the members' produce.

Only from 12 out of the 75 selected districts of the Survey, have there been reported any sales to co-operatives. In four of these districts, namely, Deoria (Uttar Pradesh), Broach (Bombay), Shahjahanpur (Uttar Pradesh) and Meerut (Uttar Pradesh), the value of produce sold through co-operatives exceeded 10 per cent of the total sales of the farmers; in Nainital it was about 1.5 per cent; and in the remaining districts it was less than 1 per cent. In Deoria alone was the value of produce sold through co-operatives (mostly sugar-cane unions) in excess of the value of produce sold to traders.

ANIMAL HUSBANDRY

15. The Census (1951) data show that 9.01 lakh persons in the rural areas reported animal husbandry as their principal

means of livelihood. The importance of dairy and poultry products can be gauged from the fact that their gross value in 1950-1 has been estimated at Rs 637 crores by the National Income Committee. As much as Rs 618 crores out of this is accounted for by milk and milk products. The receipts from milk and milk products as recorded in the Survey constitute roughly 6 per cent of the total cash receipts of the cultivator.

16. There are roughly 155 million cattle and 43 million buffaloes in the country, according to the quinquennial live-stock census held in 1951. The average yield of milk of the Indian cow is notoriously low; it is only 413 lb. per annum. The corresponding figure for the Indian buffalo is 1,101 lb. The average *per capita* consumption of milk is estimated at 5.5 oz. per day as against a minimum nutritional requirement of 10 oz. which is exceeded only in Punjab and Rajasthan. Poultry farming is an important subsidiary occupation of the poorer classes in the rural areas. The number of poultry in the country is estimated at 73 million. The ordinary village hen is of inferior breed and lays, on an average, 50 undersized eggs each year.

17. In a few States, co-operative milk supply has made some progress during the last decade. In Madras, there were 41 milk supply unions and 722 milk supply societies at the end of 1951-2; the value of milk sold by the societies was Rs 64.89 lakhs during 1951-2. The societies obtain loans from Government and in turn advance funds to their members for purchase of milch cattle. In Bombay, at the end of 1952-3, there were 7 milk supply unions and 116 dairy societies. Of the several milk supply schemes in India, the Government scheme for the supply of milk to Bombay City is easily the most ambitious and the most important. This includes a well-organized co-operative dairy farm at Anand in Kaira District and a well-equipped milk colony at Aarey, within a few miles of Bombay City. Co-operative marketing of *ghee* has made some progress only in Uttar Pradesh.

18. In Bombay, the State Government has taken some steps to increase the production of eggs by distribution of pedigree

fowl to village poultry farms and by advancing loans to persons previously trained for the purpose of starting their own poultry farms. Co-operative poultry farming has attained some measure of success in Madras and Travancore-Cochin.

19. Another important product of animal husbandry is wool. The total number of sheep in the country is estimated at 3.9 crores and the total wool production is roughly 5.5 crore lb. of which 3.2 crore lb. are exported.

20. The country's fish production is estimated at about 1 million tons, of which 70 per cent is salt-water fish and the remaining 30 per cent fresh-water fish. There is a considerable gap between the price the consumer pays and what the producer gets for fish. Transport and marketing are largely in the hands of middlemen. Facilities for cold storage are generally lacking. In a few States, such as Bombay, Bihar, Madras, Orissa and Travancore-Cochin co-operative societies for fishermen have been organized with Government assistance.

COTTAGE INDUSTRIES

21. The Census data show 28 lakhs as the number of persons engaged in the processing of agricultural commodities, weaving, making leather goods, etc.; 5 lakhs are engaged in the manufacture of metal products, making transport equipment such as bullock carts, working as blacksmiths, making medical preparations, etc.; 15 lakhs are engaged in pottery-making, brick-making, wood-carving and other handicrafts. The total expenditure envisaged in the First Five Year Plan for the development of cottage and small-scale industries is Rs 27 crores, made up of Rs 15 crores from the Central Government and Rs 12 crores from the State Governments.

22. * Among the cottage industries, the pride of place is occupied by handloom weaving. It is estimated that nearly 100 lakh persons are supported by it either as earners or as dependents on earners. For 1951, the total number of handlooms was reported to be about 30 lakhs. In addition, roughly 23,000 powerlooms are reported to be in use. For 1950-1 the total

production of cloth from handlooms and powerlooms was estimated at over 810 million yards. Sericulture is important in Bihar, Mysore, Madras, Madhya Pradesh and West Bengal. About 1,30,000 handlooms are reported to be employed on the production of silk cloth and art silk cloth. Powerlooms are also used in several States.

23. State Governments and co-operative societies meet a relatively negligible part of the total credit requirements of persons engaged in cottage and small-scale industries. The total amount disbursed as loans and grants under the State Aid to Industries Acts by all Part A States and 5 Part B States in 1950-1 amounted to about Rs 57 lakhs and Rs 2 lakhs respectively. The total budgetary provision for grants from the Central Government to the All-India Cottage Industries Board¹ was about Rs 20 lakhs in 1952-3 as compared with Rs 75,000 in 1948-9. The major part of these was given as grants to State Governments and other organizations to carry out approved schemes of training, marketing, development of production, etc.

24. The state financial corporations, which are now being established in several States, are designed to meet the relatively long-term financial requirements of medium and small-scale industries. Most of those which have been set up are still too recent to give any useful indication of the effectiveness with which these institutions are likely to meet the needs of small-scale industries in towns and of cottage industries, including those concerned with the processing of agricultural commodities, in rural areas.

25. As regards co-operatives, it is reported that at the end of June 1952 there were nearly 8,000 industrial co-operative societies with a total membership of 8·8 lakhs. Of these, 5,364 were weavers' societies with a membership of 7·2 lakhs. The

¹ In 1952, the All-India Cottage Industries Board was replaced by three separate Boards, viz., the All-India Khadi and Village Industries Board, the All-India Handloom Board, and the All-India Handicrafts Board. These Boards are empowered to recommend grants and loans for ensuring adequate supply of raw material etc. Among their functions is the organization of training, research and marketing facilities.

primary industrial co-operative societies mostly confine their activities to supplying raw materials and appliances to the members, for cash or on credit.

26. The bulk of the finance required by persons engaged in cottage and small-scale industries comes from private agencies. These are broadly of three types, two or more of which quite often intermingle, namely, the moneylender, the merchant and the master-craftsman. The moneylender advances credit for the purchase of raw materials and also for the current subsistence expenses of the village handicraftsman. He charges a high rate of interest; usually he does not have any interest in the products turned out by the handicraftsman. The merchant or dealer in raw materials ordinarily sells the raw material on credit to the handicraftsman; he too charges a high rate of interest and in addition sometimes stipulates that the finished products should be sold through him. The master-craftsman or *karkhanadar* has often an even more complete hold over the medium and small producer than has either moneylender or merchant. He provides the workshop, the raw material and the finance; to deal with him is in reality to work under him; and his clientele of theoretically independent small producers is virtually his labour force of wage-earners.

6

THE LEGISLATIVE BACKGROUND: RURAL CREDIT AND CERTAIN LEGISLATIVE MEASURES

Two sets of legislative measures are of special importance to rural credit. These are moneylending and debt relief legislation on the one hand and tenure and tenancy legislation on the other. Certain broad aspects of these measures are mentioned below.

DEBT RELIEF LEGISLATION

2. Before formulating debt relief policies, several State Governments took steps to provide immediate relief to the agriculturist debtors in the form of a moratorium, by staying the execution of proceedings against them and postponing sales of land. The next stage was the reduction of debts on a voluntary basis. For this purpose, legislation was passed in many States to set up, in the form of debt conciliation boards, a machinery through which debtors could be assisted to get the consent of their creditors to a reduction of the debt and its repayment in convenient instalments. Some of the Acts provided that not more than a certain size of debt could be the subject of conciliation. The consent of creditors who together accounted for a certain minimum percentage of the individual's total debt was necessary before any part of it could be finally treated as conciliated.

3. From the voluntary principle, the transition was to compulsion. Measures for the compulsory reduction or 'adjustment' of the debts of agriculturists usually contained the following features: (1) reduction (by the empowered courts) of principal as well as interest in accordance with scales which were related to the time of contraction of the debt; (2) fixing

of the maximum rates of interest chargeable on outstanding debt and, in some cases, on new loans; (3) extended applicability of the law of *damdupat* (viz., broadly, that total of interest paid or payable should not exceed principal); (4) limits on size of 'adjustable' debt; (5) regulation of mortgages; (6) protection of the agriculturist against certain legal proceedings; and (7) exemption of specified items of property from attachment.

4. The classes of debtors to whom relief was made available varied from State to State. Many of the Acts distinguished between debts contracted at different specified periods. Broadly, the principal of loans outstanding for relatively long periods was reduced to a figure which was two-thirds to three-fourths of the original amount. The provisions relating to maximum rates of interest chargeable on debts declared eligible for adjustment under the Acts also differed from State to State. There was also variation in the scope of protection to person and property of the debtor as well as in the period for which protection was effective. In some States, restrictions were placed on sales through courts, and the latter were empowered to fix a minimum price for lands sold in auction in execution of a decree. From the available data of debt actually settled by courts, it may be said, broadly, that in most Part A States, debt adjustment involved reductions ranging from 40 per cent to 60 per cent and in Part B States, from 20 per cent to 40 per cent. It is generally believed that together with the debt relief there was a credit shrinkage. This view is one shared by many of those who have sent replies to our Questionnaire. It is also supported by several official reviews on the working of these Acts.

MONEYLENDING LEGISLATION

5. Preceded by sporadic measures either for the whole of India or for individual States, the bulk of moneylending legislation, like that concerned with debt relief, was passed by most States in the years which followed the country-wide depression of the thirties. The main provisions of the existing legislation relate to: (1) licensing and registration of moneylenders; (2)

maintenance of accounts in prescribed forms; (3) furnishing of receipts and periodical statements of accounts to debtors; (4) fixing of maximum rates of interest chargeable; (5) protection of debtors from molestation, intimidation, etc.; (6) exemptions from attachment of items of debtor's property; (7) regulation of mortgages; and (8) penalties for infringement and machinery for enforcement. Some of these items are referred to briefly in the following paragraph.

6. The details of licensing vary for different States. What is noteworthy, however, is that licensing itself as a requirement is not uniformly imposed by all States. The provisions which seek to regulate the moneylender's rate of interest also differ from State to State. In most States, the maximum rate merely limits what the moneylender can recover through a court of law; in some it is a punishable offence to charge more than the maximum. Regulation of mortgages, exemption of property from attachment, and protection of debtors from molestation are items which, in some States, figure in the measures of legislation dealing with debt relief; in certain others, the relevant provisions occur in both sets of legislation, viz., moneylending and debt relief. Several Acts contain provisions for the automatic redemption of mortgages in certain circumstances and after the expiry of a specified period. The most usual form of penalty for infringement of the law is the denial to the transgressing creditor of the right to resort to courts for the recovery of even his legitimate dues. Fine and imprisonment as penalties are confined to contravention of specified provisions. Special machinery for enforcement exists only in Bombay, Mysore and West Bengal.

7. Replies to our Questionnaire confirm, to the extent they can, the general impression that there is large-scale and country-wide evasion of the restrictions imposed on the moneylender. There is also reason to believe that much the larger part of moneylending is carried on without licence, even where such licence is obligatory. There is, besides, some evidence of contraction of credit—which to the extent that it may have restricted wasteful forms of expenditure cannot be regarded as an unmixed evil—as also of the increased cost of credit to the agriculturist

borrower through the moneylender discounting the additional risks involved in his illegal transactions.

LAND REFORMS

8. Some of the more important provisions of recent legislation in the sphere of land reforms are concerned with the following:

1. The vesting of the estates of intermédiaires, barring certain properties such as home-farm lands, homesteads, etc., in the State;
2. Payment of compensation to intermediaries;
3. The placing of limits on future acquisition of lands by different classes of people;
4. Conferring on specified classes of tenants the right to acquire superior interests in land such as proprietorship or quasi-proprietorship;
5. Restrictions on letting and sub-letting of land;
6. Restrictions on sale and mortgage of land; and
7. Fixing of the conditions of tenancy (e.g., prescribing 'fair rents', prohibition of ejectment, etc.).

9. From the point of view of their bearing on credit, some of these items are of special importance. The first set of provisions which may be mentioned in this context is that designed to confer on the tenant-cultivator 'superior' rights in the land he cultivates, these rights falling short of ownership in certain cases and amounting to it in others. In most of the States, the legislation also fixes the rates of assessment of land revenue for different classes of tenure holders and the compensation payable by them for acquiring superior rights in the land cultivated by them. Provision is also made in regard to the manner of settlement of the past debts of intermediaries. Transfers of land by mortgage are sought to be restricted in some States by the stipulation of maximum periods for usufructuary mortgages. Certain types of mortgages and charges are not enforceable in respect of the newly allotted occupancy holdings. Conditions on which land may be leased out by landholders are also regulated.

10. Two main points emerge:

1. Accepting the social desirability of the legislation as paramount, the fact nevertheless remains that implicit in the measures regarding debt relief, moneylending, tenure and tenancy, is the curtailment of private credit, whether the moneylender's or the landlord's. Complementary to the desirability, therefore, is the need for large-scale development of institutional credit, co-operative or state-sponsored.

2. Between the need to make the cultivator's rights in land inalienable for reasons of social policy and the need to make them alienable so as to facilitate the obtaining of credit, especially long-term credit, a certain degree of conflict is inherent in the developments we have noticed. Here again, social desirability is accompanied by complementary needs, one of which in this case is the need for a change in the present emphasis which institutional credit of all types—short-term, medium-term and long-term—lays on ownership. In regard to some of these types, for example, there might have to be a shift of emphasis from ownership to productive capacity—from land to produce from land—as the basis of credit, and from dependence on eventual sale of land to dependence on effective supervision of operations as basis of recovery of credit. This is recorded here as a tentative consideration to be borne in mind, along with several others, in relation to the many-sided problem of rural credit which is to be further examined in the following chapters.

BACKGROUND OF OPINION: "SCHOOLS OF THOUGHT" ON CERTAIN ASPECTS OF PROBLEM AND SOLUTION

IT is more than ever realized today that a proper system of rural credit is basic to the development of agriculture and, therefore, to the prosperity of the country. Along with this recognition, there is growing impatience that no such system is yet in sight and many views and proposals have been put forward to which we propose to make a brief reference in this chapter.

"SCHOOL OF IMPORTED REMEDIES"

2.1 One varied set of suggestions pertain to the somewhat heterogeneous "school of imported remedies". Examples which may be mentioned are: the exhortation that the Indian Government should organize an extensive 'Farmers' Home Administration' for bringing state-sponsored credit to the doors of the less well-placed agriculturists on the model of what is done in the United States; the proposal that a somewhat different form of 'supervised credit' such as is being experimented with in some of the less developed South American States should be given a determined trial in India; the suggestion, based on the operation of the Canadian Farm Improvement Loans Act, that Government should guarantee a certain percentage of the loans made to agriculture by commercial banks; the recommendation that a country-wide network of pawnshops owned and run by the State, as in Indonesia, should supplement co-operatives wherever they exist and be their forerunners wherever they do not; and the periodically recurring advice that India should look for guidance to the *Credit Agricole* of Egypt.

3. Apart from these sporadic suggestions for engrafting on Indian conditions various types of organization which may or

may not have been successful in the countries of their origin, the main lines of thought on the problem are concerned with (1) the moneylender, (2) the commercial bank, (3) the co-operative movement and (4) the State, either by itself or in varying degrees of association with co-operative credit.

THE MONEYLENDER

4. The moneylender's continued dominance, despite all measures to control, suppress or supplant him, has led to the suggestion that any realistic system of rural credit should seek to incorporate him in itself rather than compete with him or wishfully expect to eliminate him. Many ingenious proposals are made to that end. One of them, worked out in some detail in the *Report of the Economist for Enquiry into Rural Indebtedness* submitted to the Government of Madras in 1946, is that moneylenders should be compelled to become members of co-operative societies. Another view, expressed by the Government of the then United Provinces in reply to the questionnaire of the Famine Inquiry Commission (1945), is that the moneylender and the indigenous banker should be linked with the monetary system of the country through the Reserve Bank. In contrast to these points of view is the opinion of the Agricultural Finance Sub-Committee (1945) that the main emphasis should be on the building up of a system of agricultural credit which will compete with, not absorb, the moneylender.

THE COMMERCIAL BANK

5. The view is sometimes held in commercial circles generally and by bankers in particular that the commercial bank should be encouraged by State subsidy to extend much farther than at present into the rural areas for mobilizing rural savings and for supplying agricultural credit. For instance, in July 1949, the Central Advisory Council of Industries suggested that for the promotion of rural savings the Reserve Bank should select five or six leading commercial banks, and request each of them to establish about 200 branches in rural areas and lend them free of interest the cash balances to be maintained in

such branches. In the same context, a more ambitious scheme for the establishment, with Government assistance, of a network of rural joint-stock banks under the sponsorship of scheduled banks, was put forward by the Bengal National Chamber of Commerce to the Rural Banking Enquiry Committee. Both these suggestions were rejected by the Rural Banking Enquiry Committee which was of the opinion that the "... expansion of sound commercial banks should be welcome to the extent it can be stimulated by the general measures [proposed by the Committee] but not on any other basis . . ."

THE CO-OPERATIVE MOVEMENT

6. The schools of thought are noticed to be more numerous as we pass on to Co-operation. Over the last few decades, for example, there have alternated or coexisted two distinct views as to whether co-operative credit societies should be single-purpose or multi-purpose. The Royal Commission on Agriculture in India (1928) was of the view that as a matter of principle, the single-purpose society is the best line of development. On the contrary, the Reserve Bank of India, in the very first bulletin issued by its Agricultural Credit Department, favoured the multi-purpose idea. This idea of multi-purpose Co-operation has, by some of its advocates, been expanded into the wider concept of social and economic 'rehabilitation' of the village as a whole.

7. Another subject on which there are sharp differences of opinion is the relationship that should exist between the State and Co-operation. The 'orthodox' school rejects the idea of any intimate alliance with the State by asking the question: "Which is more important in the long run, that the co-operative structure should serve as the only credit agency subsidized by the State, or that co-operators should remain true to their principles . . .?" A modification of this position is apparent in the resolution passed by the F.A.O.'s Technical Meeting on Co-operatives in Asia and the Far Eastern Countries held at Lucknow in 1949 stating that while recognizing the essentially voluntary character of the co-operative movement,

where there is need for the provision of a common essential economic service, or where the larger interests of the community require it, a resolution passed by a co-operative society should be made binding by law on non-members, provided that a substantial majority of the persons and economic interests affected by such resolution accept it.

There is a similar advance over the orthodox position regarding the element of compulsion in the functioning of co-operatives. This is clear from the observations of the Co-operative Planning Committee (1946) that “. . . in the larger interests of the country, a resolution passed by the members of a co-operative society who form two-thirds of the community affected should be made binding by law on non-members also. . . .”

STATE AGENCIES

8. The slow progress of the co-operative credit movement was among the main reasons which led the Agricultural Finance Sub-Committee to formulate the proposal that Agricultural Credit Corporations should be established by Government in each State. This suggestion found little acceptance with co-operators. In Bombay, however, it led to an important development, viz., the appointment, by the Government of Bombay, of the Agricultural Credit Organization Committee. We shall later have occasion to refer to the main features of the reorganization which followed the recommendations of this Committee: a reorganization which rested on, and was made possible by, the initiative of the Bombay co-operators and their willingness to undertake a much larger responsibility than had till then been theirs in the sphere of agricultural credit.

9. There is another variety of Agricultural Credit Corporation—all-India and not for each individual State—which is sometimes advocated and which in the last two or three years has more than once figured in the deliberations of Parliament. The proposal as well as justification for it are indicated in the following words by one of its exponents:

“The co-operative movement, despite its recent growth, touches as yet only the fringe of the problem. . . . Even if

it were to expand until it embraces every village, its resources by the very nature of the Movement are limited and the credit societies will still be in need of external funds if it is to satisfy all the demands of cultivators. The moneylender, who had been the agriculturist's mainstay, has been put out of business by the restrictive laws made by the State Governments and no alternative machinery has been created to take his place. The commercial banks cannot undertake the work of financing agriculture in view of the dispersed population in the villages and the consequent difficulties in collecting the dues. Nor can the Reserve Bank do it. At most it can only further liberalize its policy of providing credit to co-operative banks but it cannot pump into them the funds on a scale consistent with the needs of the agricultural industry; the required finance can, therefore, come only from a national organization dealing solely with this one problem of rural finance and fed with large funds. This organization can distribute loans through similar State Corporations to be started or state co-operative banks already in the field. It should also be charged with the duty of framing agricultural development programmes, giving advice to cultivators and sponsoring specific projects. This will bring about organic relation between money and the work to which it is to be devoted as suggested by the Planning Commission. . . ."

The proposal that there should be an Agricultural Credit Corporation is sometimes put forward in the form that India should establish, as has Pakistan, an Agricultural Development Finance Corporation with emphasis not so much on short-term credit, even though that too is to be looked after by the institution, as on long-term credit for land improvement and development. In pinning their faith to some form of All-India Corporation, whatever its particular designation or detailed functions, the advocates of the proposal are influenced by the following, among other, considerations:

1. The Reserve Bank may expand its credit facilities for agriculture, as indeed it has during recent years. It may, further, promote suitable organizations in States which at present lack them, for the purpose of channelling its credit through them to the cultivator. Even so, it is through co-operative banks alone that by and large the Reserve Bank

can operate in this sphere of its activities. But co-operatives have been notoriously inadequate. The Reserve Bank's programme may result in an appreciable addition to available credit for agriculture; but it is not likely to be very considerable even after all possible reforms in co-operative organization are carried out in different States in accordance with the plans worked out by them and the Reserve Bank in conjunction. For medium-term credit, especially, the adequacy of the finance likely to be available from co-operatives, supplemented by the Reserve Bank, will depend primarily on the strength of the share capital structure of different state co-operative banks and central co-operative banks, as also on the size of their owned funds. The main solution must be sought otherwise than through sole dependence on co-operatives.

2. There are large areas in which the co-operative credit movement is still in its infancy. In these tracts, and indeed even elsewhere, it is necessary to promote the quick development of co-operative credit with the help and association of the State Governments and the Central Government. Coupling this consideration with that of needed co-ordination between co-operative activity on the one hand and National Extension, including Community Projects, on the other, it is necessary that the Planning Commission, the Government of India, the State Governments, and not merely the Reserve Bank, should be mutually associated at the topmost level of policy and direction. An Agricultural Development Finance Corporation would ensure such co-ordination within the framework of its constitution.

3. From the point of view of the Reserve Bank itself, it is inadvisable that its finances and, even more, its higher personnel should be tied up too intimately with what after all is only one sector, viz., agricultural, of the many-sided functions of the Central Bank of the country. While the Reserve Bank should certainly go ahead with its present programme, the main responsibility for the development of agricultural credit should eventually be shifted to another body such as an All-India Agricultural Credit Corporation or an All-India Agricultural Development Finance Corporation.

It should be noted in this context that, contrary to the views just cited, there is a considerable section of opinion which holds that in a predominantly agricultural country like India the Central Bank cannot well be divested of responsibility for development, operation and control of agricultural credit, whatever the scope and functions of Central Banks may be in the more industrialized countries of the West.

8

STATEMENT OF PROBLEM: OBJECTIVES AND REQUIREMENTS

“CREDIT,” says an old French proverb, “supports the farmer as the hangman’s rope supports the hanged.” But if credit is sometimes ‘fatal’, it is often indispensable to the cultivator. An Indian aphorism in verse tells him that only that village is fit to live in which has “a moneylender from whom to borrow at need, a *void* to treat in illness, a Brahmin priest to minister to the soul and a stream that does not dry up in summer”. Agricultural credit is a problem when it cannot be obtained; it is also a problem when it can be had but in such a form that on the whole it does more harm than good. It may be said that, in India, it is this twofold problem of inadequacy and unsuitability that is perennially presented by agricultural credit.

MAIN ELEMENTS OF THE PROBLEM

For many reasons, a problem of this kind is more acute for agriculture than for any other industry. Agriculture is by its very nature rural whereas organized finance, as it has originated and developed in many countries, is urban. Agricultural credit is, therefore, usually the least institutional and the most dispersed of all types of finance. It is, however, not to the nature of the credit agency alone that have to be ascribed the main differences between finance for agriculture and for other industries. There are several features of the agricultural industry itself, such as the very small size of the operative unit, dependence on the vagaries of the seasons and perishability of products, which distinguish it from all other forms of industry. These difficulties, common to agriculture everywhere, are peculiarly great for ‘subsistence’ agriculture (as distinguished from ‘commercialized’ agriculture) which is disadvantageously placed for attracting the finance necessary for its business. The economic standard of its farm operations is very low. Moreover, a large part of the working funds which the subsistence

farmer needs has the appearance of being related to his consumption rather than to his production. In India, as we have seen, further and more complicated elements are introduced into the problem by reason of the socio-economic structure of the village, with its characteristics of caste and inequality, with the result that among the main elements of the problem of agricultural credit in this country today is included not only the financial aspect of providing the needed capital for the agricultural industry, but also the economic aspect of development and the social aspect of countering and correcting the repercussions on credit of a markedly unequal distribution both of status and of possessions.

2. Against this background, however, there are various technical aspects of analysis and classification which must figure in any detailed discussion of the problem. All these appear in detail in *The Survey Report*. It need only be recapitulated here that among the matters to be kept in view are, on the one side, the different types of borrowers, and, on the other, the different agencies of credit; there are, besides, the periods and purposes of credit; it will be clear from this that one of the main elements of the problem of rural credit in India is the aspect of co-ordination, e.g., co-ordination of need and purpose with period, co-ordination between the agencies themselves, and co-ordination of the system as a whole with the objectives of governmental policy. These latter, i.e., the objectives of the State in the context of rural credit, form the subject of the next section; while the one which follows it deals with the requirements which must be postulated in respect of a system of agricultural finance designed to meet those objectives.

CLARIFICATION OF OBJECTIVES

'3.' If the reorganization of rural credit were conceived in purely quantitative terms, it would still, in the light of the data of the Survey, be a big enough task to undertake. In relation to the period covered by the Survey and on the basis of the data recorded, the total *annual* borrowings of the cultivator—short, medium and long—may be very broadly estimated for the whole of India to be of the order of Rs 750 crores.

If, hypothetically, reorganization were to aim at half of this being taken over by one or more institutional agencies associated with Government or working in conformity with its policies, the total volume of agricultural credit then supplied by such agencies would be more than eight times the combined accommodation now available from the Governments and the co-operatives, after taking into account the finance obtained by the latter from the Reserve Bank. But much larger agricultural production is one of the main objectives of national policy, and the size of agricultural finance will obviously have to increase with the size of the production itself. The fact, however, is that the problem of rural credit in India is of much greater magnitude than if it had been merely one of magnitude. This follows from a number of extremely important considerations which, apart from adequacy of volume, have to be borne in mind. These are related to:

1. The general criteria which a suitable type of credit should satisfy;
 2. The handicaps external to the present institutional arrangements, and the defects internal to them, which have to be surmounted or rectified;
 3. The further strengthening of those arrangements with the object of making the institutional system of which they are part an effective alternative to the private moneylender;
 4. The maximum possible conformity of the system to the programme of larger agricultural production; and
 5. The maximum possible observance, in devising the system, of certain directives of the Constitution.
4. The criteria to be fulfilled may be set down as follows in the words of M. Louis Tardy:
1. "It should be granted for a sufficiently long period, commensurate with the length of the operation which it is designed to facilitate;
 2. It should be granted at a low rate of interest;
 3. It should be adequately secured, in order, more particularly, to avoid any abuse of credit facilities, but the security should not necessarily be material: it should, if necessary, be in the form of a personal credit secured mainly by the borrower's moral standing and farming ability;

4. It should be adapted to the average yield and capacity for repayment of the farms, particularly during periods of economic depression;

5. It should be placed in the hands of institutions the directors of which have received special training and had actual banking experience."¹

We may briefly consider some of these criteria in their relation to present conditions in India. The first relates to conformity between the period of the loan and the purpose of the operation. Private agricultural finance is unconcerned about purpose; while, as regards period of repayment, private loans tend, for various reasons, to be either too rigid on the one hand or too elastic on the other. Such little institutional finance as is available from co-operatives formally purports to be short-term for the most part, whereas in actual practice it tends to be medium-term or even long-term; at the same time, there is no effective supervision over purpose. The last observation applies with even greater force to institutional finance from Government. The second criterion relates to a low rate of interest: private finance has no such object in view; co-operative finance is often unable to achieve it; and Government finance, which sporadically aims at it, does so without plan or co-ordination. The third desideratum regarding the form of security is something which neither private nor institutional finance satisfies today. The fourth criterion, which is adaptation of repayment to fluctuations in production and price and, therefore, in repaying capacity, is of great importance in this country. The obverse of this requirement is the ability of the credit agency itself to withstand the deferment of dues; the plight of co-operatives after the depression of the thirties demonstrated the lack of such ability. This consideration, therefore, underlines the need for some form of stabilization of institutional credit for agriculture, e.g., through reserves built up during the more prosperous years. The last of the requirements mentioned above relates to trained personnel, again a matter of importance, as is demonstrated by the working of the generality of co-operative organizations in India.

¹ *Report on Systems of Agricultural Credit and Insurance*, League of Nations, 1938, p. 35.

5. Passing on to the next set of considerations, a distinction may be drawn between the handicaps which a system of finance can only seek to counteract, and not remove, and defects or shortcomings which are within its competence to rectify. The foreign experts, whose report was made available to the Central Banking Enquiry Committee, listed, more than twenty years ago, a number of handicaps to the proper operation of agricultural finance in India, such as uncertainty concerning most crops in parts of India owing to drought conditions, small size of holdings and their fragmentation, inefficient marketing of produce and illiteracy.

In certain respects, significant changes have been initiated in regard to some of these conditions. However, one of the basic handicaps with which any system of agricultural finance in India will have to contend remains, namely, the smallness of the operating unit of the cultivator. The main implications of this, from the point of view of credit are: (1) One of the major ways of increasing production will be the more intensive use of seed, fertilizer, etc. These will have to be provided on credit, preferably in kind, to the smaller cultivator. (2) The impracticability of dealing institutionally with a very large number of relatively small cultivators points to the need for the co-operative type of finance rather than the 'corporation' type in which the financing organization deals direct with the individual cultivator.

MAIN REQUIREMENTS IN A SOLUTION

6. In the objectives discussed in the last section are implicit some of the main requirements which reorganization must fulfil. The manner of fulfilment can only be considered at a later stage and after much fuller examination of the problem. Meanwhile, we may tentatively list the main requirements which the reorganized system of institutional credit should satisfy:

1. It should be associated with the policies of the State, especially those which aim at larger rural production.
- ✓ 2. It should be an effective alternative to—though not necessarily a complete substitute for—the private agencies of credit.

3. It should have the strength of adequate resources and of well-trained personnel, as distinguished from the weakness which at present characterizes co-operative credit whether in finance, administration or supervision:

4. It should be in a position to co-ordinate its activities not only internally in relation to the different sectors pertaining to short-term, medium-term and long-term credit, but also with complementary arrangements for marketing, processing and other important economic activities of the cultivator. It should also be in a position to co-ordinate its activities with those of all the important institutional agencies, including Government, which are engaged in guiding the villager, improving his methods of cultivation, supervising his operations or educating him to avoid wasteful practices.

5. It should pay special attention to the needs of the medium and small cultivator, and should, therefore, be based on a type of security that, consistently with its adequacy from the point of view of the creditor, will enable as large a body of solvent producers as possible to use the facilities available through it. In other words, it should lend not merely on the security of land and other more usual forms of security, but also on the security of anticipated crop.

6. It should disburse credit in a constructive way for the positive benefit of both producer and production; it should, therefore, effectively supervise the use of credit and constantly bear in mind the borrower's legitimate needs and interests.

7. It should be such that it helps in the effective growth and development, from the village upwards, of the co-operative form of association. This follows from the fact that agricultural credit in this country, considered as an organized system with certain purposes to be fulfilled from the point of view of State policies, must necessarily be organized on the basis of an association of cultivators in the village. There is every reason why such an association should be co-operative. An association of borrowers obviously ought to depend as much as possible on mutual aid, develop their own strength and at the same time cultivate the habit

of thrift among themselves. The co-operative credit society, as first introduced into this country, was intended to undertake these very tasks. Today, more than ever before, there is every reason for an institutional system of rural credit to be based on a co-operative association in the village.

With these considerations in mind the record of various credit agencies, private, State or state-associated, are examined in the next few chapters, in order to assess past performance and future significance.

9

RECORD OF MONEYLENDERS, TRADERS AND INDIGENOUS BANKERS

THE data derived from the General Schedule reveal that, during the year of the Survey, the private credit agencies taken together (excluding commercial banks which are dealt with in the next chapter, but including professional moneylenders, agriculturist moneylenders, relatives, traders and landlords) supplied about 93 per cent of the total amount borrowed by cultivators. The combined contribution of Government and the co-operatives was about 6 per cent of the total, each accounting for about 3 per cent. As for commercial banks, 1 per cent represented the insignificant part played by them in the direct financing of the cultivator. The different percentages are as follows:

PATTERN OF SUPPLY OF PRIVATE CREDIT

| Credit agency | Proportion of borrowings from each agency to the total borrowings of cultivators |
|---------------------------------------|--|
| | Per cent |
| Government | 3·3 |
| Co-operatives | 3·1 |
| Relatives | 14·2 |
| Landlords | 1·5 |
| Agriculturist moneylenders | 24·9 |
| Professional moneylenders | 44·8 |
| Traders and commission agents | 5·5 |
| Commercial banks | 0·9 |
| Others | 1·8 |
| Total .. | 100·0 |

The private moneylender thus dominates the scene, the professional moneylender with about 45 per cent, and the

agriculturist moneylender with nearly 25 per cent of the total. One noteworthy aspect which is common to both professional and agriculturist moneylenders is that about four-fifths of the debt owed to either class is unsecured.

2. Loans from relatives accounted for 14 per cent of the reported borrowings of cultivators, all such loans, by virtue of the definition of the term 'relative' for the purposes of the Survey, being interest-free. About 6 per cent of the total borrowings of cultivators was from traders and commission agents. It must, however, be noted that several moneylenders, especially urban moneylenders, combine other activities with money-lending. The proportion of reported borrowings from traders and commission agents was quite high in some of the more commercialized districts. But there is only a very thin line of distinction between what the trader may professedly advance as 'loan' and what he may virtually advance as instalment of purchase price. It is noteworthy that, in certain districts, a very high proportion of the total advances from traders, formally classed as loans, carried no interest. We have elsewhere drawn attention to the fact that in many instances, sales of produce in the village noticeably preponderate over sales outside the village. In a significant number of districts in which village sales were a marked feature, the cultivators reported themselves indebted to the traders in respect of a large proportion of the sale transactions they had entered into with the latter.

CERTAIN OTHER ASPECTS OF PRIVATE CREDIT

3. We have seen that among creditors the moneylender, and among moneylenders the professional moneylender, dominates rural credit. The dominance itself has been made possible by the ineffectiveness of all attempts hitherto made to organize a competitive agency for the supply of credit for the rural areas; the main fact meanwhile is that the needs exist and must seek such fulfilment as they can in the given conditions. It would be wholly incorrect to think of the moneylender as merely exploiting those needs; he also adapts himself to them. Among other things, it is this adaptation which explains his survival

in the village, whereas the legislation which has sought to control him survives, by and large, only on paper. It is necessary that we try and understand, if we can, the ways of the moneylender as he pursues his calling in the village.

First, there is little that escapes his eye in the circumstances of his debtors or of those who may one day be his debtors. What co-operatives merely postulate, he actually possesses, namely, a local knowledge of the 'character and repaying capacity' of those he has to deal with.

Second, he has different kinds and degrees of hold on those to whom he chooses to lend. Least important of all for him is the possibility of having recourse to the law; and almost as unimportant (especially nowadays) is the possibility of acquiring his debtor's property. This predisposes him, in most cases, to dispense with the requirement of land as security, an aspect to which we have already referred. Usually, the compulsion which he depends upon is one which he has reason to hope will operate more or less automatically. If need be, of course, he is prepared to exert himself and set in motion the forces of compulsion. Those forces are social or economic or both. They are different for different debtors, but are in each case related to how the debtor is circumstanced in the village. The social compulsion is connected with considerations such as loss of 'face' or local prestige, caste disapproval, possible pressure through the caste *panchayat* and a variety of other social sanctions which, because they happen to be intangible, are not on that account any the less powerful. There are also a number of ways of economic compulsion. One form of pressure is that which the moneylender can himself exert by threatening to withhold further credit. Another is that which it may be possible to apply through some other creditor, especially the trader from whom the cultivator may have taken an advance. Both these varieties of pressure become one and the same if the moneylender is himself the trader, as is so often the case. Since moneylender, trader and landlord—not to mention village headman and village accountant—are not without their code of mutual obligations in the village, it may also happen, in some instances, that the moneylender approaches the borrower's landlord, if he has one; for, to the owner of the land the cultivator is likely to have been beholden already in more

ways than one. These do not exhaust the various ways of applying the economic sanction; but they are fairly illustrative.

Third, it does not follow that he will invoke the forces of compulsion the moment payment has become due. This is a matter on which, being unfettered by institutional codes, he can be as rigid or as elastic as realism dictates. Often, of course, he has to reckon with the fact that both debtor and he will have to continue to live in the same village.

Fourth, having, in the light of all these possibilities, decided on whether and how much he is going to lend and on what terms, he is free to follow as flexible a procedure as he likes in regard to the actual operation of lending. He may or may not insist on a formal document of debt, though he usually does. With due regard to what he wants, and having meanwhile arrived at his own reading of the situation generally, he proceeds to consider whether it is worth while to make the document conform to truth; if he concludes that it is not, his next step is to decide on the precise extent to which the record shall deviate from the more accidental facts of the transaction such as principal, interest, period of repayment and security. Finally, he may, if forced to it, even decide to alter the nature of the transaction itself, and, for example, contrive that loan is entered as sale, if the former is inconvenient.

Fifth, and perhaps most important of all—and at the same time illustrative of his adaptation to needs—is his ability promptly to hand over the money, in order that some expenditure which brooks no delay may be helped to be met at once; there is no need for him to await someone else's sanction, and the compulsions mentioned above enable him, if he so chooses, to dispense with or postpone all or any of the legal formalities.

If, to the substance of the technique described above and to the realities of the village setting in which the technique operates, we add the fact of the moneylender's virtual monopoly of rural credit, we shall have got together the essentials of the situation. It is one in which practically the only credit agency accessible to the cultivator is either 'good' or 'bad', extortionate or reasonable, according as a combination of circumstances in each village dictates. The combination includes two important items among many others. One of these

is what sort of person the particular moneylender happens to be. The second is whether there exists, in the village itself, anything which is likely to frighten the moneylender in his turn. In other words, just as he uses certain sanctions against the debtor, are there similar sanctions which can be used against him, the creditor? Different villages will provide different answers, except of course that nothing internal to the village seems so far to have succeeded in subduing or dislodging any large number of moneylenders. The private money-lender shows no signs of disappearing. That brings us to the point that, after all, the merit as well as the demerit of private credit is that it is private; and the real question—which will come up for mention in a subsequent part of the Report—is whether this matter can be left to be worked out by the local socio-economic conditions of each village in conjunction with the private resources and private virtues (or the lack of them) of the moneylender or moneylenders of each village.

Several respondents to the Committee's Questionnaire see in the elasticity of his operations the main explanation of the survival and dominance of the moneylender's credit. It emerges very prominently from the Survey that the professional moneylender is one of the very few creditors who lend largely on personal security as distinguished from the security of immovable property. The explanation is to be found in the description we have given of his technique and of the conditions in which he employs it.

But when it comes to the rate of interest, neither the moneylender, whether professional or agriculturist, nor his close associates, the landlord and (sometimes) the trader, are seen to exercise much restraint on themselves. Thus, according to the data collected by the Survey, the proportion to the total borrowings of cultivators from private credit agencies (other than commercial banks) of such of those borrowings as bear a rate of interest of 25 per cent or more is as high as 70 per cent in Orissa, 49 per cent in Tripura, 40 per cent in West Bengal and in Himachal Pradesh, 29 per cent in Uttar Pradesh and 27 per cent in Bihar. Nor are annual interest rates of 50 per cent or above infrequent in certain areas. It follows that money-lending legislation has had little effect on what the cultivator is actually charged as interest by the moneylender.

To the very small extent that the indigenous banker (defined, for the purposes of the Survey, as a moneylender who accepts deposits and deals in *hundis*) lends direct to the agriculturist, the latter makes no distinction between him and other moneylenders, especially urban moneylenders. Such loans from the indigenous banker, therefore, are on the 'demand' side of the Survey reflected, by and large, in the borrowings reported by the cultivators as from professional moneylenders. From the point of view of the study of the 'supply' agencies, however, it would be both more correct and more convenient to regard indigenous bankers (along with commercial banks) as part of the financial superstructure of private credit, of which the primary base consists largely of the professional and agriculturist moneylender.

4. The total number of village moneylenders interviewed for the purposes of the Survey was 622 all over India. Of these, 174, or about 28 per cent, said that their financial operations made it necessary that they themselves should borrow. Further, out of these 174, as many as 78 per cent mentioned 'other moneylenders', some 6 per cent mentioned indigenous bankers and 4 per cent referred to commercial banks, as sources available to them for financing their transactions. The 'other moneylenders', if only because of the size of resources requisite in a lender who finances another lender, may be presumed to be the bigger moneylenders in the towns.

Of the 2,854 urban moneylenders interviewed all over India, some 966, or about 34 per cent, said that they themselves had to borrow in order to finance their transactions. Out of these, some 84 urban moneylenders, or 9 per cent, mentioned indigenous bankers as the available source, while as many as 673, or 70 per cent, said they could borrow from 'other moneylenders'; these others, to be an effective source, can only be the largest among the urban moneylenders. Another figure remains to be mentioned. Out of the 966 urban moneylenders who stated that they themselves had to be financed, some 320, or 33 per cent, referred to commercial banks as their resort for borrowing. The Survey data also generally indicate that the commercial banks, as a whole, have assumed more importance than any other single agency (including the indigenous banker)

for the financing of the trader in agricultural commodities. It should, however, be noted that wholesalers, and export firms are also of considerable significance as financiers of retail traders in agricultural commodities; indeed, in some districts, they are the most important credit agency available to such traders.

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RECORD OF COMMERCIAL BANKS

IF commercial banks have already come in for mention in the last chapter, it is because they occupy a significant place in the financial superstructure that is available to the village moneylender, the urban moneylender, the indigenous banker and the trader in agricultural produce. We have yet to consider the commercial banks in relation to the cultivator, the co-operatives and, as a specific type, the wholesale trader in agricultural commodities. It is this part of the record that we shall examine in this chapter.

THE CULTIVATOR AND COMMERCIAL BANKS

Summing up the rôle of commercial banks in agricultural credit, the Indian Central Banking Enquiry Committee said in 1931:

"We have already remarked that the joint-stock banks play little direct part, and the Imperial Bank much less, in the supply of credit to the agriculturists. . . . Banks, however, do finance agriculture indirectly by financing merchants who give advances to the small village dealers; and some banks lend direct on the pledge of produce and valuables and on mortgage. . . . The Bombay Committee have reported that the Imperial Bank of India has recently begun in the Bombay Presidency to finance big landlords on personal security with sureties, or on the security of produce or of gold. The Managing Governor of the Bank has stated in his evidence that the policy of the Bank since its inauguration has been to encourage advances at reasonable interest against personal security with at least two good names supported, if possible, by the hypothecation of crops and also against the pledge of agricultural produce and gold. . . ."¹

Indication is forthcoming from certain data—which however we are unable to publish since the Imperial Bank has

¹ *The Indian Central Banking Enquiry Committee, 1931, Majority Report, p. 191.*

refused us permission to do so—that at the end of 1950-1, after twenty years of operation of the 'policy' to which so pointed an attention had been drawn by the Managing Governor (as he was then called) of that institution, the amounts advanced by the Imperial Bank for 'agricultural production' constituted a wholly insignificant proportion of its total advances. We may, however, refer to the data for all reporting scheduled banks (including the Imperial Bank) available in the quarterly Survey of Bank Advances of the Department of Research and Statistics of the Reserve Bank. These reveal that only 2·7 per cent of the total advances of scheduled banks was for 'agricultural production' as on 30 June 1951. The corresponding percentage for all reporting non-scheduled banks was about 5·5 per cent on 30 June 1951. If all reporting banks (Imperial Bank, other scheduled banks and non-scheduled banks) are taken together, the actual amounts outstanding on this account during the course of 1951 were Rs 14·9 crores (March), Rs 18·3 crores (June), Rs 19·9 crores (September) and Rs 15·5 crores (December). Here again, the figure for the quarter ended 30 June 1951 was roughly 3 per cent of the total advances of all reporting commercial banks in India. The data of the Rural Credit Survey indicate that the credit obtained from commercial banks by the cultivator was less than 1 per cent of his total borrowings and even so was confined to a few districts. In 44 out of the 75 districts selected for the Survey, not a single pie was reported as having been borrowed by cultivators from a commercial bank.

CO-OPERATIVES AND COMMERCIAL BANKS

2. In a total working capital of Rs 36·72 crores of all the state co-operative banks in India as on 30 June 1952 loans from commercial banks amounted to Rs 2·51 crores or less than 7 per cent of the total. Small as it is, the figure is misleadingly large; for, out of the Rs 2·51 crores, a major part represented a loan which, on State guarantee and in effect as agent of Government, the Madras State Co-operative Bank obtained from the Imperial Bank for purposes largely connected with food control, i.e., the procurement etc., of foodgrains. Even more negligible is what district co-operative banks and

banking unions manage to get by way of credit from commercial banks, the all-India average being 1·7 per cent.

WHOLESALE TRADE AND COMMERCIAL BANKS

3. It is seen from data collected by the Department of Research and Statistics of the Reserve Bank of India (quarterly Survey of Bank Advances) that the advances of commercial banks to wholesale trade in agricultural commodities amounted to about 17 per cent of their total advances on 30 June 1951; a large portion of such credit was in respect of agricultural commodities, such as cotton, jute, oilseeds and sugar, more especially cotton, which are of major significance to the commercial community.

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RURAL CREDIT AND THE SUPER- STRUCTURE OF BANKING

FROM the private credit agents such, as moneylender, trader and indigenous banker and from the commercial bank which, besides being one such agent itself, is also part of the financial superstructure of the other agencies of private credit, we may turn to the larger monetary and banking superstructure of the country and consider the bearing of its operations on the working of the rural credit system.

CULTIVATOR'S NEED FOR CREDIT

2. The cultivator's need for credit arises in a number of different ways. He may, in the course of business, want short-term funds for current production; he may require a medium-term loan for purchase of livestock; or he may have to borrow long-term for digging a well or improving his land. We have seen in Volume I the intimate connexion between the economy of the district and the pattern of borrowings for current expenditure on farm business. Not as pervasive a relationship between regional crop economy and borrowing is present in the context of medium-term finance for production. Borrowing for long-term production is determined largely by the physical conditions of the tract and the possibilities of development presented by them. Borrowing for family expenditure has no such clear relationship with the physical characteristics and crop pattern of the region or the district. Its obvious connexion is with the level and composition of family expenditure.

RESOURCES OF THE CULTIVATOR

3. Looking at the other side, i.e., the resources of the cultivator, it is clear that the cash realized from sale of crops is ordinarily available only at certain times during the year,

whereas the expenditure is more evenly spread over the year. The Survey data on cash receipts and expenses show large variations in the volume of cash transactions of the average family and in the proportions which cash utilization bears to total transactions. Where farm produce is the chief item of owned resources and little is sold for cash or paid for in cash, the economy is also one in which cash expenses are very low compared with total expenses and cash sales of crop disproportionately small compared with the total value of the produce. This may be called a 'low monetized' or 'subsistence' economy. On the other hand, there are economies where the produce of the farm is not in large part confined to food and other crops required for the sustenance of the cultivator and his family. In such cases the bulk of the produce is sold for cash by the cultivator; he buys from the proceeds the commodities needed for family consumption; and out of them he also finds the outlay needed for current farm business. In such an economy, cash expenses on the farm are a substantial part of the total expenditure incurred on it, and cash proceeds from the sale of crops etc., account for much the larger portion of the gross value of the produce.

HOW DEMANDS FOR CREDIT ARE MET

4. We may next examine how the demands for cash loans by the cultivator are in practice usually met. We may first consider the private credit agencies. Here again it would depend on the type of economy of the tract whether these agencies are large or small in number and their resources ample or scanty in size. In a farming economy in which the produce was largely marketed and the process of cultivation required large outlays on purchase of materials, the agricultural sector of activity would by itself afford considerable scope for the business of trading and the business of money-lending. In practice, the business units might be such as combine moneylending with trading. There would arise out of the trading activity a constant turnover of funds; this would enable the business units to be put in possession of loanable funds at appropriate times; and these funds would be utilized for the complementary activity of moneylending. But at this

stage arises the extremely important consideration that the trading-cum-moneylending activity would also be greatly dependent on the availability of a credit mechanism of the banking and remittance type, and therefore be intimately associated, in regard to its own development, with the extension of that mechanism.

On the other hand, in areas where there is little by way of sale of crops or cash outlay on farming, rural trading and other activity would be confined to providing for consumption needs; even these needs, in a subsistence economy, would tend to be largely met, internally, in kind; so that total trading would be small and, at any point of time, the cash resources of both the cultivators and the non-cultivators in the area would be limited. In such an economy, through lack of an affluent class with adequate resources, such as trader or large cultivator, the number of persons who could engage in moneylending would be small and the resources of those actually so engaged would be limited. Further, because of the smallness of business turnover and the lack of banking and remittance facilities, liquidity of funds would be of extreme importance for moneylending as for other types of business; and there would be need for maintaining in the form of cash a relatively high proportion of the resources used in these activities. All this would mean that much greater difficulty would be experienced by the people of this tract in meeting their periodical or occasional demands for cash expenditure than would be the case in the commercialized and monetized areas.

ROLE OF COMMERCIAL BANKS

5. The main components of the modern banking structure are the commercial banks which are helped in their activities by facilities afforded by the monetary and banking superstructure in the direction, for example, of remittance of money in cash and by cheque. Further, they are enabled to economize in the use of resources by being provided with facilities for ready short-term investment and ready short-term borrowing. The key instrument of the monetary authority in the affording of these facilities is the branch of the Imperial Bank which, itself a commercial bank in the main, understandably follows

more or less the same lines as other commercial banks. The result is that there is a concentration of these facilities in the more commercialized and monetized agricultural regions in which not only is the total service more effective, but its cost is less. The more commercialized the agricultural economy of the area, the more conspicuous the concentration of these facilities. The effect of this important trend has been cumulative; on the one hand there has been brought about an increase in resources and services and a decrease in costs of service in particular areas favourably situated in this regard; and, on the other hand, there is retarded development, limited resources, restricted facilities and high cost of service in areas where the opposite situation prevails.

A word may be said in this context regarding the development of co-operative agencies which are undoubtedly more specifically related to the financing of agricultural production than are commercial banks. Theoretically, therefore, their development would assume a pattern that need not necessarily fit into the picture we have considered. But even finance for production would be more largely required in the commercialized or monetized economies than in those of the subsistence type. Moreover, in the less monetized areas, co-operative societies and co-operative financing agencies would suffer from lack of remittance and other facilities which the banking superstructure alone could afford. In the absence, therefore, of a positive policy and deliberate well-directed effort, even the extension of co-operative credit would tend to follow the pattern already described. The result would be that a continuous neglect of backward tracts would go hand in hand with the further development of areas which had already benefited.

CREDIT SUPERSTRUCTURE FOR BACKWARD TRACTS

6. In planning the development of backward tracts, the first problem to consider would thus be the establishment of an appropriate superstructure of credit. In particular, if there is to be investment of capital for planned development, a beginning has to be made with the importation of the necessary resources from outside these areas. The imported resources have then to be distributed to the scattered farm business

units for purposes of investment; at a later stage, the credit requirements of these units, both for business and for family expenditure, have to be continuously financed. In the absence of a suitable credit structure, development would be rendered impossible in these particular tracts by paucity of resources and high rates of interest. Even if the question were confined to the development of co-operative credit and marketing, an inescapable requirement would be the establishment of a superstructure which supplies the needed cash along with an adequacy of loanable funds.

RELEVANT SURVEY DATA

7. If the foregoing brief analysis has some claim to validity, the data of the Survey should point to there in fact being an association between the various factors mentioned. In relation to different tracts, these factors are the commercialization and monetization of the economy, the availability of private lending agencies (especially at the village level), the resources of these agencies, the rates of interest they charge, the extent of development of commercial banking, the distribution of the branches of the Imperial Bank, and the degree of development of co-operative financing agencies.

In considering the Survey data from the point of view of this analysis, it will be necessary to classify the selected districts in two different ways: (1) according to the broad character of their economy and (2) according to the level of the range of interest rates charged by private credit agencies. As regards (1), the 75 districts surveyed may be divided into three broad categories: 'subsistence'—(category A); 'monetized' (but not particularly commercialized)—(category B); and 'commercialized and monetized'—(category C). The other broad classification has to be related to the range of interest rates charged by private credit agencies. A convenient index for this purpose would, in respect of each selected district, be the proportion which the volume of borrowings at 18 per cent or more bears to the total volume of borrowings (the borrowings in either case being from the principal private credit agencies). The 75 districts surveyed might be arranged in the descending order of magnitude of these proportions and then divided into

5 equal groups of 15 each. The grouping of the 75 districts according to these two types of classification is as follows :

| Category A (Subsistence) | Category B (Monetized) | Category C (Commercialized and monetized) |
|--|--|---|
| <i>Group I: Very high</i> Palamau Jaunpur Shivpuri Malda Drug Jhabua Shajapur Bilaspur Deoria Hazaribagh | <i>Group I: Very high</i> Hamirpur Mohindergarh Agra Sawai Madhopur Sirohi | <i>Group I: Very high</i> Nil |
| <i>Group II: High</i> Monghyr Puri Raisen Chanda Bhagalpur Sultanpur Sambalpur Midnapore Ballia | <i>Group II: High</i> Meerut Aligarh Kanpur Chittorgarh | <i>Group II: High</i> Parbhani Osmanabad |
| <i>Group III: Medium</i> Bhilsa Koraput Rewa Sitapur Sagar Satna Burdwan | <i>Group III: Medium</i> Shahjahanpur Tripura Hissar Sirmoor Bhatinda | <i>Group III: Medium</i> Mahbubnagar Ratnagiri Akola |
| <i>Group IV: Low</i> Mirzapur | <i>Group IV: Low</i> Nainital Ramanathapuram Jullundur Jalpaiguri Barmer Nizamabad | <i>Group IV: Low</i> West Khandesh Nagpur Sorath Bijapur Kolhapur Hassan Malabar Quilon |

| Category A (Subsistence) | Category B (Monetized) | Category C (Commercialized and monetized) |
|---------------------------------|---|--|
| <i>Group V: Very low</i> Nil | <i>Group V: Very low</i> Chingleput Jaipur Hoshiarpur West Godavari Kamrup Churu Cachar Lakhimpur | <i>Group V: Very low</i> Coimbatore Poona Ahmedabad Cuddapah Kurnool Broach Bangalore |

We may now consider the groups in relation to the economy of the districts included in the different groups, as also with reference to the extent to which facilities are available from the Imperial Bank, other commercial banks and co-operative financing agencies. The extent of development of these agencies of institutional credit in the different districts may be broadly judged as reflected in a few simple indices. For the Imperial Bank and the other commercial banks, the number of rural families per available unit (branch or other office of the bank) functioning during 1951-2, the year covered by the Survey, may be taken as an index of the stage of development. It would not do to take merely the number of available offices, since it makes all the difference whether it is a very populous district or a very sparsely inhabited one, which happens to have, say, a single branch of a commercial bank. For central co-operative banks (and other 'central financing agencies' like branches of the state co-operative bank), however, number-cum-population would not be a suitable criterion; indeed, there are several districts where the availability of co-operative finance is relatively low, but the number of central co-operative banks per district happens to be particularly large. For these banks, therefore, we may adopt, as criterion of the stage of development, the average amount advanced as worked out per rural family in each district. Certain outstanding features regarding each of the five groups are mentioned below in the light of these criteria.

Group I (Very high interest rates)

Of the 15 districts in which the interest rates are the highest, 10 belong to category A (subsistence) and 5 to category B (monetized). It is of significance that not a single district belonging to category C (commercialized and monetized) falls in this group of very high interest rates. The operations of the Imperial Bank have not appreciably extended to districts of this group. For the group as a whole, on an average, there is only one branch of the Imperial Bank for about 3,73,000 rural families. Commercial banking too is poorly developed in the group, there being, on an average, only one office of a commercial bank for about 46,000 families. The co-operative central financing agencies in this group of districts advanced less than Rs 4 per rural family during 1951-2.

Group II (High interest rates)

In this group, as many as 9 districts are again from category A (subsistence) while 4 belong to category B (monetized). The remaining 2 districts are from category C (commercialized and monetized). On an average, the Imperial Bank has one branch per 1,37,000 rural families in this group. Commercial banking is also not well developed and one commercial bank office serves, on an average, 40,000 rural families. In several of the cases, the number of families per unit is significantly large. Advances by co-operative central financing agencies averaged about Rs 12 per rural family.

Group III (Medium interest rates)

The third group comprises 7 districts from category A (subsistence), 5 from category B (monetized) and 3 from category C (commercialized and monetized). On an average, there is one office of the Imperial Bank in this group of districts for about 90,000 families. It has, however, to be noted that in as many as 8 districts, 2 from category C and 6 from categories A and B together, there are no branches at all of the Imperial Bank. There is one office of a commercial bank for about 21,000 rural families in this group of districts, as compared with one office for about 40,000 and 46,000 families, respectively in Groups II and I. Co-operative central financing agencies do not function in 3 districts; where they do function,

the level of advances from them is generally somewhat higher than in Group II.

Group IV (Low interest rates)

The fourth group includes 1 district from category A (subsistence), 6 districts from category B (monetized) and 8 from category C (commercialized and monetized). As compared with Groups II and III, this group is as a whole slightly worse off in regard to facilities afforded by the Imperial Bank, there being on an average only one branch for about 1,78,000 rural families. It has to be noticed, however, that the average is affected by the fact that the Imperial Bank has no branch at all in as many as 6 of the districts; 4 of these, as it happens, belonged to the erstwhile princely States to which the Imperial Bank had not extended its activities on anything like the same scale as was applicable to the former Provinces of 'British India'. Commercial banking is relatively well developed in this group of districts. On an average, there is one office of a commercial bank for about 7,000 families, which is a considerable improvement over the three preceding groups. The co-operative superstructure is generally well developed, though there are 3 districts which are without co-operative central financing agencies. For the group as a whole, the advances from these agencies averaged about Rs 37 per rural family.

Group V (Very low interest rates)

The fifth group of districts (in which interest rates are the lowest) comprises 7 districts of category C (commercialized and monetized) and 8 districts of category B (monetized). It is significant that category A (subsistence) does not figure at all in this group. There is, on an average, one branch of the Imperial Bank for about 1,02,000 families in this group of districts. This average is largely influenced by 4 districts in which the Imperial Bank does not operate; it is noteworthy that all these 4 districts are in category B. As in the case of the fourth group of districts, commercial banking is relatively well developed. On an average, there is one office of a commercial bank for about 10,000 families. In 6 districts, 4 of them pertaining to category C, there is one such office for less than 10,000 families. The advances of co-operative central financing

agencies in this group work out to an average of Rs 46 per rural family.

A few observations may be made by way of summing up the above data. As judged by the average levels of borrowing, credit is most available in districts of category C (commercialized and monetized), less in category B (monetized) and least in category A (subsistence). Further, in point of development of structure, commercial and co-operative banking reaches a relatively high level in districts of category C; it is less well developed in category B; while in many of the areas included in category A it is either ill developed or not developed at all. Finally, attention may be drawn to the fact that, with one exception, the districts with 'low' and 'very low' interest rate levels are in tracts which are monetized (category B) or both commercialized and monetized (category C). Not only the activities of commercial banks, but also of co-operative financing agencies, are of a significantly higher order in the monetized, or commercialized and monetized, areas than in the regions characterized by a subsistence economy. The pattern of development of the Imperial Bank is broadly similar; here again it is the subsistence tracts that are most without the facilities provided by that state-associated institution.

RECORD OF CENTRAL GOVERNMENT AND STATE GOVERNMENTS

AGRICULTURAL credit from Government takes the age-old form of *taccavi*. The legal framework is provided by two well-known pieces of legislation, the Land Improvement Loans Act of 1883, and the Agriculturists' Loans Act of 1884. The former is broadly concerned with long-term loans and the latter with short-term accommodation. It is these parent Acts or their derivatives and variants, together with the rules under each, that operate in most States, incidentally bringing about a broad measure of uniformity in the credit dealings of State Governments with their agriculturists. A dependence on the revenue agency for the disbursement of *taccavi* and the difficulty of finding money for the financing of it are two other characteristics common to most States. A relatively recent, but very important, development is the grow-more-food scheme which, by virtue of the Central assistance behind it, has resulted in a noteworthy expansion of the financial content of *taccavi* without, however, any significant alteration in its legal and administrative mould. The only other important recent development is the inclusion of agricultural finance in the various forms of assistance given under a number of schemes in different States for the rehabilitation of displaced persons.

“TACCABI”

2. *Taccavi* has a vital role in times of famine and distress. Indeed its historical origin lay in this particular function. It has, further, a potentially important part to play in relation to specially backward areas or classes of people. To assess the system, however, one must exclude these contexts and place it in a more normal setting and consider it as a system of supply of agricultural credit to the cultivator, for subsistence as well as for production, but with greater emphasis on the latter. One then sees that, in practice, *taccavi* is apt to be little else than the ill-performed disbursement of inadequate moneys by an ill-suited agency. It would not be far from the truth to

say that the record of *taccari* is a record of inadequacies. These are considered below in their different aspects.

Inadequacy of amount, inequality of distribution and inappropriateness of basis of security

3. It may be recalled that the all-India average for borrowings of cultivators from Government as a percentage of their total borrowings was as low as about 3 per cent. The inadequacy of finance is often inherent in the rules of State Governments which, in their turn, of course reflect the smallness of the financial resources which State Governments can spare for this purpose. In one State, for example, the rule is that “in case of short-term loans the average loan per head should not exceed Rs 15 and the maximum should not exceed Rs 25 in any individual case”. Several respondents emphasize this aspect and call the Government loans ‘ridiculously inadequate’ (head of a district in a Part A State), ‘far too inadequate as compared to the genuine needs’ (Registrar of Co-operative Societies of a Part A State) and so on.

If the distribution of *taccari* is considered class-wise for the cultivators, the Survey data show that there is considerable inequality in favour of the big and large cultivator. It is also seen that the average borrowing of the big cultivator was nearly four times that of the medium cultivator and roughly ten times that of the small. One important reason for this is to be found in the nature of the purposes for which Government finance is made available. These purposes are often related to forms of improvement of land or methods of increase of production such as are beyond the scope of the medium and small cultivators. Part of the explanation also lies in the nature of security usually demanded for Government loans. This is immovable property, that is to say, in this context, land. The Survey data indicate that several State Governments advance loans primarily against the security of immovable property. Besides the nature of the security demanded, there are other reasons for the bias of the system towards the big and the large cultivators to which attention has been drawn by some respondents. For instance, Government often make use of local committees for distribution of *taccari* in kind (e.g., fertilizer). The persons who constitute these village committees,

taluka committees, etc., are quite often themselves 'the representatives of the 'upper ten' in the village.

Inconvenience of timing, incidental delays and impositions of various kinds on the borrower

4. According to several of those whose replies throw light on this matter, the time taken in sanctioning the loans is such as to frustrate the very object of Government's assistance to the agriculturist. It is difficult to gauge the extent of administrative delay through statistics of the type we have been able to collect even though it may be noted that in some districts at least, it took eight months or more to disburse a large number of the loans granted.

5. The rates of interest which Governments charge on their advances vary from State to State, but usually range around $6\frac{1}{4}$ per cent. According to some of our respondents, this by no means implies that the actual cost of a loan to the cultivator is correspondingly low. It has been pointed out that the loan application is passed on in the traditional manner of official disposal from one revenue office to another. The cultivator, or those who purport to interest themselves on his behalf, thereupon resort to the practice of visiting circle offices, taluka offices and even district offices in an effort to get the application disposed of 'favourably', if possible, speedily in any case. Each visit to taluka town or district headquarters adds to the actual cost of the credit. Part of this addition, according to many respondents, is the illegal gratification which passes from applicant to lower official.

Inefficiency of supervision and incompleteness of co-ordination

6. The revenue administration is well known to have multifarious duties, even as the subordinate revenue official is well known to have multifarious ways of discharging them. We say this without seeking to add to the maligning of one who, even if he is not without his own share of sins to bear, is at the same time perhaps as overmaligned as he is certainly overworked and possibly underpaid. The fact remains that he has neither time nor training nor inclination to bring to the specialized and whole-time task of supervision of credit. The inadequacy of staff is not always that of revenue staff. For distribution of

manure, agricultural implements, etc., as *taccari* in kind, many of the State Governments use the agency of their agricultural departments. A non-official respondent, referring to his experience in one such State, writes: “Under the old scheme, the agricultural demonstrator had a fieldman and two *maistries* for each *firka* and a minimum of two sale depots for each taluka. At present . . . there is only one depot at taluka headquarters and the field staff is exactly halved. . . . Fieldman and demonstration *maistries* cannot reach all the ryots. They cannot inspire confidence. Their anxiety is to secure a seat in the return bus and reach the headquarters.”

7. Along with the lack of supervision and general lack of efficiency of State credit, goes a lack of co-ordination between the different departments concerned with the operation of the system. There are instances of far too many departments having been entrusted with different types of *taccari*. Thus, in one Part A State, ‘agricultural loans’ and ‘land improvement loans’ (i.e., ordinary *taccari*) are given by one department and seed loans and cattle purchase loans by another; co-operative loans are given by still another department and loans for displaced persons by a fourth. We learn that, as a result, people sometimes manage to borrow from more than one department. The administrative overlapping and wastage are obvious. In varying degrees, the same thing happens in other States and other contexts.

Lack of co-ordination occurs not only between one department of Government and another, but between Government on the one side and the co-operative credit agency of the State on the other. An experienced ex-Registrar of Co-operative Societies of an important Part A State says: “Government schemes of agricultural credit in many respects are neither co-ordinated with one another nor with similar operations of co-operative institutions. For instance, both the Revenue and Agricultural Departments provide agricultural finance. Again, these agencies operate in areas served by co-operative institutions and advance loans for the very purpose for which co-operative agencies can and do advance loans at rates lower than the co-operative agencies. There is thus duplication of agencies, duplication of finance and a variety of rates and terms of loans for different types of agricultural credit.”

RECORD OF CO-OPERATIVE AGENCY (I) : ACCOUNT OF PRESENT POSITION

CO-OPERATION in India—one may even speak of it as the Indian Co-operative Movement—has just completed fifty years of its existence. But an effort of the imagination is required to visualize the Movement as a single entity for the whole of India or as one consistent process since it was first officially established in this country in 1904. In the distinctive features of its development in different parts of India, the lack of uniformity is at least as discernible as uniformity. Its record over the years is strewn with bewildering contradictions: high individual endeavour and general lack of leadership; official sponsorship, including official regulation and administration, as a deliberate and consistent policy of the Central Government and all State Governments, but sponsorship which in some States has been real, enthusiastic and, in an administrative sense, efficient, while in many States it has remained notably inefficient and almost as nominal as the existence of the Movement itself in those areas; Governments at times seemingly all out to help, mostly by offering to multiply the number of societies and organize and administer them further, rather than by proposing to supervise them further or, least of all, finance them further; and Governments at other times displaying considerable caution administratively (the euphemism usually employed is 'consolidation') and considerable hesitancy financially; peaks of popular sentiment and enthusiasm for the co-operative idea and periods of widespread lack of public confidence in the co-operative movement; significant success in sporadic cases and much failure in the generality of instances; and, finally, as the one feature common to most regions of the country, the acquisition of five decades of experience from which may be learnt decisive lessons for the future, if only one is prepared to delve deep for them and extract them from both failure and success.

In general, the account given in this chapter is of the position reached by the co-operative agency at the end of 1951-2, which happens to be the year of the Survey. The particulars, except where otherwise stated, are taken from the Reserve Bank's *Statistical Statements relating to the Co-operative Movement in India*.

SHORT-TERM AGRICULTURAL CREDIT

State co-operative banks

2. There were 16 state co-operative banks in 1951-2. Five more have been set up since then as part of State programmes of development of co-operative credit formulated by the Governments concerned in consultation with the Reserve Bank. Substantial State participation in share capital is a feature of all the new banks, as also of some of the older ones such as Bombay and the reconstituted ones such as West Bengal, Hyderabad and Mysore. State co-operative banks now exist in all Part A States, in all Part B States (excluding Jammu and Kashmir) and in four out of the ten Part C States.

The loan operations of some of the state co-operative banks reveal certain defects. For instance, some of them finance traders, merchants and other 'individuals'—i.e., persons who are not members of primary societies—to the relative neglect of co-operative finance. The percentage of finance obtained by individual members to the total advances was as high as 74 in Madhya Pradesh and 30 in Hyderabad. Some banks have made substantial long-term loans out of short-term funds. The combination of trading with banking in the *Credit Agricole* scheme of the Bihar State Co-operative Bank has, in the result, given a set-back to the credit movement in that State. The percentage of overdues to loans outstanding from banks and societies was as high as 82 in West Bengal, 43 in Bihar, 21 in Hyderabad and nearly 20 in Madhya Pradesh, Mysore and Punjab. In respect of its dealings with individuals, 50 per cent of the loans of the apex bank in Hyderabad was overdue. In general, and barring two or three States, state co-operative banks have yet to become effective units of a co-ordinated structure of co-operative credit.

Central co-operative banks and banking unions

3. There were 509 central co-operative banks and banking unions with a membership of 1,18,406 individuals and 1,12,912 banks and societies in 1951-2. It may be said as a general statement of the position that the capital structure of central banks is very weak, their owned resources meagre and their dependence upon apex banks necessarily large. In many States, there is an excessive number of central banks; the average number of societies affiliated to each central bank is often too small to admit of adequate business. The staff of central banks are generally ill-equipped and inadequate for the duties they have to perform.

The loan operations of central banks are characterized by several unsatisfactory features. In some States, business with individual members accounts for a large proportion of the advances made by the banks. In Madhya Bharat and Rajasthan, the relevant percentage was above 50. It was 39 in Madhya Pradesh, 25 in Hyderabad and 13 in Bombay. Some central banks (e.g., in Bihar, Orissa, Punjab and West Bengal) undertook trading activities during the war and post-war periods; some of them suffered serious losses in consequence of their commercial ventures. The percentage of overdues from societies was very high in many States. There were bad and doubtful debts of an appreciable order in some of the States.

Primary agricultural credit societies

4. There were 1,07,925 primary agricultural credit societies with a membership of 47,76,819 in 1951-2. The vast majority of these societies are uneconomic as business units. As a rule, membership per society is small; the average membership was 44. The average share capital per society was only Rs 827. It was the highest in Bombay at Rs 2,866 per society. Punjab came next with Rs 1,278 while Madras was third with Rs 1,156. The average amount of deposits per society was as low as Rs 408 and the average working capital per society was Rs 4,190. For their finance, the majority of societies depend to a very great extent upon external sources.

The loan operations of the societies are at a very poor level. There is little specific provision for medium-term finance,

e.g., to buy a bullock or purchase a pump. Moreover, few societies conform to those principles of co-operative finance which require (1) that loans should be matched to productive purpose, and repayment to fulfilment of purpose, (2) that, consequently, repayment should not be out of further borrowing but from genuine savings or out of annual earnings, and (3) that, as a further consequence, repayment—if necessary in instalments—should be so timed as to be convenient from the point of view of incomes. The picture which emerges is the strikingly different one of an arrangement whereby the borrower is in effect allowed a limited permanent advance which is based on the security of his land and which he usually carries over from year to year. There is little or no relation between credit and purpose and, therefore, little or no observance of the distinction between short-term and medium-term loans. Sometimes, when the administration happens to be insistent on compliance with the formal proprieties, it is not unknown for devices to be adopted such as plausible 'book' adjustment, or temporary 'repayment' followed by immediate re-borrowing, in order to make it appear that loans are being repaid annually. These and other considerations must be kept in mind for a realistic appraisal of the 'overdues' position of the primary co-operative societies. For all India, the percentage of overdues to outstandings was 25 in 1951-2.

5. A noteworthy trend is the enlargement in function of the primary agricultural credit society. In recent years, as a result of a deliberate policy on the part of some State Governments, in large part connected with the need for an agency for the war-time distribution of controlled goods, including food and cloth, there has been a large increase of multi-purpose societies. The term 'multi-purpose' covers all gradations of the enlargement of purpose from the simplest stage, when just one more function is added, to that degree of co-operative development when all or almost all the important aspects of the socio-economic life of the individual member are taken within its purview by the multi-purpose society. However, as a matter of fact, enlargement of function has tended to remain generally at or near the simplest stage, a fact which has to be borne in mind in interpreting the statistical expansion

of the multi-purpose societies which will be seen from the following table :

(Rs in lakhs)

| | Year | No. of societies | Member-ship | Working capital | Purchase of goods | Sale of goods |
|-----------|--------|---------------------|-------------|-----------------|-------------------|---------------|
| All-India | 1946-7 | 9,650 | 3,44,512 | 178.43 | 79.13 | 212.08 |
| | 1951-2 | 39,930 ¹ | 21,42,905 | 1333.71 | 2260.96 | 2785.96 |

¹ Out of this number Uttar Pradesh accounted for 24,302.

6. In 1951-2, out of a total of 1,07,925 agricultural credit societies, 30,904 had limited liability; the remaining 77,021 societies had unlimited liability. Unlimited liability is the orthodox Raiffeisen principle which has, till recently at any rate, been the guiding principle of departments in India in their official mission of organizing co-operative credit. The theory was that collective and unlimited liability would provide a suitable basis on which loans could be obtained by those who had little or no tangible security to offer, and also induce a feeling of collective responsibility among members and, as a corollary, initiate a live process of careful business management, continuous vigilance and mutual supervision. In practice, however, little of this has materialized.

LONG-TERM AGRICULTURAL CREDIT

Central and primary land mortgage banks

7. At the end of 1951-2 central land mortgage banks were functioning in six States, viz., Bombay, Madras, Mysore, Orissa, Travancore-Cochin and Saurashtra. A central land mortgage bank was set up in Hyderabad in the early part of 1953. Land mortgage banking has made little progress in India. More than half of the States are without a single land mortgage bank. Whatever development there has been is largely confined to Madras (including Andhra). Out of a total of 289 primary land mortgage banks, as many as 130 were in Madras;

and out of a total of Rs 250·65 lakhs advanced as loans by the central land mortgage banks, Rs 82·84 lakhs or 33 per cent were accounted for by the (undivided) Madras Co-operative Central Land Mortgage Bank.

Certain features regarding the operations of land mortgage banks may be noticed. Loans given by land mortgage banks are predominantly for discharge of prior debts and redemption of mortgages, and not for purposes connected with land improvement and development. Land mortgage banks have little or no specialized staff for assessing the technical soundness of schemes and inadequate supervising staff for verifying that schemes are in fact being executed. State Governments possess such a machinery, but proper co-ordination between State Governments and land mortgage banks in this particular is almost always lacking. Again, borrowers from land mortgage banks are required to repay loans in equated annual instalments over a series of years, usually 15 or 20. Different periods are not prescribed for different types of loans. This is an outcome of the long-standing practice under which the loans given are predominantly for clearance of debt. One of the criticisms levelled against land mortgage credit is the delay involved in getting it. Land mortgage banks as a rule find it difficult to raise adequate long-term funds for their operations. Even though guaranteed by the State Governments, their debentures have only a limited market. Finally, central land mortgage banks and state co-operative banks not only remain legally, financially and administratively distinct, but make little or no effort to co-ordinate their activities.

SUMMING UP

8. To sum up, the place occupied by co-operative credit in the rural finance of the country is very insignificant. Organizationally and financially, there has, at the apex level, been considerable expansion in the recent past; even so, the central banks still remain weak and largely unco-ordinated; but the weakest link of all in a chain which is weak at almost all points is the primary co-operative credit society. It satisfies none of the requisites of either good Co-operation or sound credit. Its failure to promote thrift and savings is followed at not too

great a distance by its failure to provide in the village a system of credit which is at once adequate, prompt and productive.

These remarks, which are primarily with reference to short-term credit, also apply to medium-term and long-term agricultural credit. The former is still a big lacuna everywhere. The latter—apart from Madras and Andhra which contain the beginnings of development—is practically undeveloped in India. It may be said of the land mortgage banking system of India that, at its best, it raises inadequate funds in a manner ill-related to demand and usually lends them in a manner unco-ordinated with development; acts as if prior debts, and not production, had prior claim on its attention; reaches mainly the large cultivator and reaches him late.

RECORD OF CO-OPERATIVE AGENCY (II) : ASSESSMENT OF PERFORMANCE

AN account of the co-operative agency has been given in the last chapter in the light of its development over half a century and of the position it has now reached in structure, finance and operations. The purpose of this chapter is to assess the main operations of co-operative credit as pertaining to a system of rural finance, and to find out if possible whether there are any features of the system itself, as it has developed, which may be responsible for the deficiencies of performance revealed by the assessment.

2. As a system of credit, the co-operative agency performs two main 'operations'. It obtains funds for granting loans and it grants loans. In the structure of co-operative credit, as we have seen it in the last chapter, these two functions tend broadly to be divided between the primary credit society on the one hand and the apex and central financing agencies on the other. It follows that attention has to be mainly directed to (1) the primary level when considering the system as one of providing loans to the cultivator and (2) the central and apex levels when considering the system as one of mobilizing resources and of deploying the total resources in a manner which does not deprive agriculture of its due priority. These two aspects are dealt with in the following paragraphs.

THE SYSTEM OF CO-OPERATIVE CREDIT

Provision of loans to the cultivator

3. The first point to notice is the relatively small percentage of cultivating families which borrow from co-operatives, even after allowing for the fact revealed by the Survey that, taking all classes of cultivators together, the families which borrow from any agency at all are only 58.6 per cent of the total

number. The following table gives the relevant percentages for different classes :

| Type of cultivator | Proportion of families which reported borrowings from any agency | Proportion of families which reported borrowings from co-operatives |
|-------------------------|--|---|
| | Per cent | Per cent |
| Big | 56.7 | 5.1 |
| Large | 59.4 | 4.5 |
| Medium | 60.7 | 3.3 |
| Small | 55.1 | 1.9 |
| All cultivators | 58.6 | 3.2 |

(Rural Credit Survey)

These are all-India figures. The variations between States are interesting. It is seen that Bombay leads with 8.3 per cent as the proportion of families borrowing from its co-operatives. The next highest percentage is 4.9 for Uttar Pradesh followed by Punjab (3.7 per cent) and Madras (3.2 per cent). In terms of quantum of co-operative credit, absolute and relative, Bombay is even further ahead of the other States. A family in Bombay gets on an average more than Rs 28 from the co-operatives; whereas, no other State reaches even Rs 9 per family (Punjab and Madras are Rs 8.8 and Rs 8.9 respectively). As for proportion of co-operative credit to total borrowings, Bombay's record is 16.2 per cent; the next highest is Punjab with 4.2 per cent; Madras and Uttar Pradesh, lagging much behind with 2.2 per cent each, are more typical of a number of the remaining States; the hindmost group comprises Hyderabad, Assam, Bihar, Mysore, PEPSU and Vindhya Pradesh in which the percentage is less than one or even so negligible as to figure as 'nil' in the general averages.

* The position in regard to certain main types of borrowings, period-wise and purpose-wise, is shown below separately for

each such item; the data are given in respect of Bombay, Punjab and Madras.

| Purpose-duration | Amount borrowed from co-operatives for this purpose-duration as per cent of total borrowings of cultivators from all agencies for this purpose-duration (all-India) Per cent | Amount borrowed by cultivating families from co-operatives as per cent of their total borrowings from all agencies | | |
|----------------------------------|---|--|----------|----------|
| | | Bombay | Punjab | Madras |
| | | Per cent | Per cent | Per cent |
| <i>Agricultural</i> | | | | |
| Short-term | 11.3 | 42.1 | 5.9 | 1.2 |
| Long-term ¹ | 2.4 | 5.0 | 2.0 | 2.2 |
| <i>Non-agricultural</i> | | | | |
| Short-term | 0.5 | — | — | — |
| Long-term | — | — | — | — |
| <i>Consumption</i> | | | | |
| Short-term | 2.2 | 7.9 | 8.2 | 3.3 |
| Long-term | 0.9 | 2.9 | 2.7 | 0.8 |
| <i>Repayment of old debts</i> .. | 8.7 | 21.5 ² | 1.3 | 13.3 |
| <i>Other purposes</i> | 2.4 | 12.5 | 0.3 | 2.9 |

(Rural Credit Survey)

¹ Including, in this context, medium-term.

² Borrowings for this purpose were reported only in one of the districts.

What emerges conspicuously is Bombay's lead in credit for short-term agricultural production (42.1 per cent of total borrowings as compared with 5.9 in Punjab and 1.2 in Madras). The average short-term agricultural borrowings from co-operatives amounted to Rs 18.7 per cultivating family in Bombay, Rs 1.2 in Punjab and Rs 0.9 in Madras. Further, Bombay retains the lead in co-operative agricultural credit for consumption as well as for the items classed 'other purposes'.

4. A brief reference may be made to another aspect. The Survey data for the upper 50 per cent of the selected cultivators show that the cultivating families which resort to co-operatives

as well as other agencies for meeting their credit requirements are, in terms of percentage of the total number borrowing from co-operatives, about 88 in Madras, 75 in Punjab and Uttar Pradesh, 49 in Madhya Pradesh, 44 in Bombay and 14 in West Bengal. The position is almost similar in regard to the lower 50 per cent of the cultivators in these States. It is noteworthy that even in Bombay (in which the average amount is the highest reached, viz., Rs 28.2), as many as 44 per cent of the upper 50 per cent of cultivators who borrowed from co-operatives have to resort to other agencies as well for meeting the balance of their requirements.

5. Several of the primary credit societies studied in the course of the Survey were 'dormant'. Out of the 777 agricultural credit societies studied, 665 were in villages and 112 in taluka places or marketing centres. Out of the 665 societies in the villages, about 161 (or 24 per cent) had not advanced any loans during 1949-50 and 1950-1.

6. If we now consider the loan operations of the primary credit society, several significant points emerge. Foremost is the basis of credit. While, in theory, co-operative credit is *personal* credit based upon the character and the repaying capacity of the cultivator, the Survey data reveal that, in actual practice, a high proportion of the advances in many States is against the security of immovable property.

Secondly, the data collected by the Survey show that the class-wise distribution of co-operative finance is preponderantly in favour of the large cultivator—as compared with the medium and the small—and, among large cultivators themselves, predominantly in favour of the big cultivator. Whereas the average borrowing from co-operatives per family in the case of big cultivators was Rs 21.0, the relevant figures in the case of the medium cultivator and the small cultivator were only Rs 4.7 and Rs 1.9. Part of the explanation is to be found in the tendency we have noticed for co-operative credit to be based on land as the main form of security. Further, the medium and small cultivators are, proportionately, in more need of 'consumption' credit than, with their greater resources, are the big and the large. If the co-operative credit system in

most States shows a bias against consumption credit on the ground that its primary preoccupation is 'productive' finance, then, to that extent, the system is bound to be automatically biased in favour of the big and large cultivators. This is exactly what has happened in practically all the States.

Thirdly, the loaning system, on account of the emphasis on ownership of land as basis of credit, tends to neglect periodical recovery from the periodical income of the borrower. The system also divorces itself from need to stipulate, much less supervise, any productive purpose. A comparison of the data given by the primary agricultural credit societies with those furnished by the cultivator shows that, in several States, only a small proportion of the total amount lent by the societies was reported to have been lent for 'family expenditure', even though the cultivators reported that the larger portion of their borrowings from co-operatives was for this particular purpose.

It is thus seen that the system, as it now operates in regard to purpose and supervision or recovery, turnover and overdues, is not a system of credit which is likely to attract funds on its own merits and in the normal course of business. Moreover, the system of loaning, as it now prevails at the primary stage, is such that it has no large scope for utilizing the funds available at the higher levels of the structure in a manner which implies sound, purposive and equitable disbursement of credit.

7. That being the general picture, it is all the more necessary to examine why in Bombay alone, relatively though not in absolute terms, both the volume and the coverage of co-operative agricultural credit are strikingly large. A comparison between Bombay and Madras should be particularly significant. Both of them are usually regarded as well developed in the co-operative sense; and both of them certainly have well-administered co-operative departments. But the comparison perhaps stops there. Madras is 'orthodox' from the co-operative point of view. That is to say, in the principles of the Movement, as in the practices which now dominate the system, co-operative credit in Madras runs true to old pattern. Bombay, on the other hand, especially since 1948-9, has been experimenting with a system of 'crop loans'. This, perhaps, cannot be said to be unorthodox; in fact, it may even be regarded as a

going back from present co-operative practices to original co-operative principles. But what is 'unorthodox' in Bombay Co-operation is mainly the other development which has taken place in the form of State participation, both direct and indirect, in the finances and organization of co-operative credit.

Certain figures relating to the advances granted by primary agricultural credit societies in the two States, according to data available in the compilations of the Agricultural Credit Department (A.C.D.) of the Reserve Bank, may first be given:

(Rs in crores)

| Year | Bombay | Madras | All-India |
|------------------------|-------------------|-------------------|--------------------|
| 1946-7 .. | 1.70 | 3.47 | 9.03 ¹ |
| 1947-8 .. | 2.22 | 4.40 | 10.45 ¹ |
| 1948-9 .. | 3.29 ² | 4.96 ³ | 14.04 ¹ |
| 1949-50 .. | 5.29 | 6.44 | 17.99 |
| 1950-1 .. | 6.90 | 7.65 | 22.90 |
| 1951-2 ⁴ .. | 8.12 | 7.33 | 24.21 |

(A.C.D.)

¹ Figures are approximate.

² Data for 1948-9 and for subsequent years include those for merged areas.

³ It is not clear whether the figure includes data for merged States also.

⁴ Excludes grain banks.

It will be seen that, whereas the advances made by primary agricultural credit societies in Bombay increased from Rs 1.70 crores in 1946-7 to Rs 8.12 crores in 1951-2, those made by primary agricultural credit societies in Madras increased from Rs 3.47 crores in 1946-7 to Rs 7.33 crores in 1951-2. Further, while in 1946-7, the advances given by agricultural credit societies in Bombay fell short of half of those in Madras, the advances granted by such societies in Madras in 1951-2 were lower than those in Bombay. These figures may be studied in relation to the size of the rural population in the two States.⁵

⁵ Taking agricultural credit societies and their membership in the two States, it is seen that the average amount borrowed per member was Rs 50 in Madras and Rs 105 in Bombay; the membership of agricultural credit societies per 100 rural families was 16.6 in Madras and 17.5 in Bombay. The average amount advanced per rural family by primary agricultural credit and primary agricultural non-credit societies together, was Rs 10.4 in Madras as compared with Rs 31.4 in Bombay (A.C.D.).

LOANS ADVANCED BY PRIMARY AGRICULTURAL CREDIT
SOCIETIES PER 1,000 RURAL FAMILIES.

| | | | Bombay | Madras |
|----------|----|----|--------------------|--------------------|
| | | | Rs | Rs |
| 1946-7.. | .. | .. | 5,690 ¹ | 4,132 ¹ |
| 1947-8.. | .. | .. | 7,322 ¹ | 5,191 ¹ |
| 1948-9.. | .. | .. | 7,679 | 5,744 |
| 1949-50 | .. | .. | 12,158 | 7,390 |
| 1950-1.. | .. | .. | 15,639 | 8,702 |
| 1951-2.. | .. | .. | 18,161 | 8,256 |

(A.C.D.)

¹ Due allowance for variation as a result of merger has been made.

It will be seen from the above table that the loans advanced by primary agricultural credit societies in Madras in 1951-2 per 1,000 rural families came to Rs 8,256 which was only a little higher than the figure of Rs 7,679 representing the loans advanced by primary agricultural credit societies in Bombay in 1948-9.

8. The analysis made in the previous paragraphs may be read in conjunction with the following data relating to the districts selected for the Survey in Madras and Bombay.

| | Borrowings per 1,000 rural fami- lies from all co- operative agencies | Average amount borrowed by culti- vating family from co-operatives | | Proportion of cultivating families borrowing from co- operatives Per cent |
|--------------------------------------|---|---|---|---|
| | | Per family | As percentage of total borrowings from all agencies Per cent | |
| | | | | |
| <i>Madras</i> | Rs | Rs | Per cent | Per cent |
| Chingleput .. | 1,060 | 2 | 0.5 | 0.5 |
| Coimbatore .. | 8,670 | 18 | 3.7 | 4.6 |
| Cuddapah .. | 5,800 | 7 | 1.6 | 3.6 |
| Kurnool | 13,190 | 18 | 3.9 | 3.3 |
| Malabar | 2,250 | 3 | 0.7 | 1.4 |
| Ramanatha- puram .. | 930 | 1 | 0.7 | 0.5 |
| W. Godavari .. | 10,480 | 18 | 3.1 | 10.0 |
| Weighted average for the State .. | 5,100 | | | |

(continued)

| | Borrowings per 1,000 rural fami- lies from all co- operative agencies | Average amount borrowed by culti- vating family from co-operatives | | Proportion of cultivating families borrowing from co- operatives |
|--------------------------------------|---|---|---|---|
| | | Per family | As percentage of total borrowings from all agencies | |
| | Rs | Rs | Per cent | Per cent |
| <i>Bombay</i> | | | | |
| Ahmedabad .. | 14,170 | 22 | 6.0 | 4.3 |
| Bijapur | 8,400 | 11 | 5.5 | 4.9 |
| Broach | 57,430 | 96 | 31.6 | 21.2 |
| Kolhapur | 18,470 | 21 | 21.4 | 14.9 |
| Poona | 27,550 | 39 | 20.4 | 7.1 |
| Ratnagiri | 3,310 | 4 | 9.5 | 1.8 |
| W. Khandesh .. | 33,820 | 56 | 21.0 | 13.1 |
| Weighted average for the State .. | 20,200 | | | |

(Rural Credit Survey)

These figures speak for themselves. It is clear that Bombay has recorded very much quicker progress than Madras during the last few years, and that this period has, in Bombay, also been one in which the crop loan system has been sought to be gradually established in deliberate replacement of the older pattern in which creditworthiness and ownership are more or less interchangeable. The system of crop loans has been in different stages of experimentation since 1939 when the Bombay Agricultural Debtors' Relief Act was first introduced and it received an impetus when the revised Act was extended to the entire State in 1947. This period saw the emergence of a class of 'adjusted' debtors who could not alienate their lands without the consent of the debt adjustment boards and who, therefore, found it difficult to obtain credit from the usual sources. Government then came forward with a scheme under which it agreed to provide a guarantee against losses up to 5 per cent and to bear the entire cost of supervision of co-operatives which were expected to be the main agencies for the supply of crop finance.

The system of crop finance assumed new significance when in 1948-9 the co-operative credit movement in the State was reorganized with the active support of the co-operators of the State. Under the new arrangements, the reorganized Bombay State Co-operative Bank and central financing agencies, together with the primary credit societies, were expected to provide short-term finance to all creditworthy agriculturists. Instead of fixing credit limits on the basis of landed security, special attempts were made to provide short-term finance on the basis of crop acreages and to link the time of repayment to the harvesting season.

In connexion with this new set-up, reference may be made to the Government contribution to the share capital of the Bombay State Co-operative Bank and also to the central banks through the State Co-operative Bank. Such contributions as on 30 June 1953 amounted to Rs 26 lakhs (representing 43.3 per cent of share capital) and Rs 6.75 lakhs (representing 31.0 per cent of share capital of the central financing agencies concerned) respectively. Further, the Government also agreed to subsidize the uneconomic branches of the central financing agencies, especially those opened in the relatively undeveloped areas.

Mobilization of resources and priorities in their deployment

9. The resources of the co-operative credit system and the observed priorities in their utilization may now be considered with special reference to the apex and central banks. The table on page 102 indicates the total resources and their composition at the different levels including the primary level. It will be seen therefrom that of the total working capital of the primary agricultural credit societies, which is Rs 45.22 crores, more than 50 per cent consists of borrowed funds. Deposits constitute as little as 9.7 per cent of the total; the owned funds, i.e., share capital and reserves amount to Rs 17.67 crores and are about 39 per cent of the working capital. Further, the working capital of the primary agricultural credit societies in Bombay, Madras and Punjab accounts for more than 67 per cent of the total working capital of all such societies in the country.

The total working capital of the central financing agencies was Rs 60.11 crores. Here again, Bombay, Madras and Punjab

WORKING CAPITAL OF CO-OPERATIVE CREDIT (SHORT-TERM) INSTITUTIONS

(All-India: as on 30 June 1952)

(Rs in crores)

| Source | State co-operative banks | | Central banks and banking unions | | Primary agricultural credit societies ¹ | |
|---|--------------------------|-------------------------------------|----------------------------------|-------------------------------------|--|-------------------------------------|
| | Amount | Percentage of total working capital | Amount ² | Percentage of total working capital | Amount | Percentage of total working capital |
| Owned funds (share capital and reserves) .. | 4.26 | 11.6 | 9.81 | 16.3 | 17.67 | 39.1 |
| Borrowed funds: | | | | | | |
| Loans from | | | | | | |
| Co-operative banks .. | 0.02 | 0.1 | 10.62 | 17.7 | 22.67 | 50.1 |
| Commercial banks .. | 2.51 | 6.8 | 1.00 | 1.7 | — | — |
| Government .. | 1.81 | 4.9 | 0.29 | 0.5 | 0.48 | 1.1 |
| Reserve Bank .. | 6.85 | 18.6 | — | — | — | — |
| Others .. | 0.08 | 0.2 | 0.15 | 0.2 | — | — |
| Deposits from | | | | | | |
| Co-operative banks .. | 3.85 | 10.5 | 0.91 | 1.5 | — | — |
| Primary societies .. | 4.54 | 12.4 | 10.58 | 17.6 | 0.19 | 0.4 |
| Individuals and other sources .. | 12.80 | 34.9 | 26.75 | 44.5 | 4.21 | 9.3 |
| Total working capital .. | 36.72 | 100.0 | 60.11 | 100.0 | 45.22 | 100.0 |

(A.C.D.)

¹ Excluding grain banks.² Borrowings from the Reserve Bank are shown as part of the working capital of the state co-operative banks.

together account for the larger part (71.6 per cent) of the working capital. Borrowings from co-operative banks (mostly the apex banks) constitute 17.7 per cent of the working capital, while deposits account for 63.6 per cent. Out of the total deposits with central banks amounting to Rs 38.24 crores, only Rs 10.58 crores (of which less than Rs 2.13 crores pertain to agricultural credit societies) were from primary societies. As much as Rs 26.75 crores were from individuals and other sources. One point to note about the apex banks is that as on 30 June 1952 nearly a fifth (18.6 per cent) of the total resources

consisted of accommodation from the Reserve Bank. More than a third (34.9 per cent) was from individuals and other sources.

10. As we have pointed out, it so happens that the apex and central banks are the financiers not only of co-operative agricultural credit, but also of certain other types of co-operative activity, though the fact of course remains that, both in origin and development, their most important function is that of financing agricultural credit societies. The following figures for 1951-2 may be seen:

| (All-India) | | | | (Rs in crores) |
|---|----|----|----|----------------|
| Advances of state co-operative banks | .. | .. | .. | 55.27 |
| Advances of central banks | .. | .. | .. | 105.64 |
| Advances of primary agricultural credit societies | .. | .. | .. | 24.21 |
| (A.C.D.) | | | | |

There is, thus, a very large difference between the fresh advances of apex banks and central banks on the one hand and primary agricultural credit societies on the other. Out of the total fresh advances of all apex banks in 1951-2, 12.4 per cent were given to individuals, who may be presumed in most States to consist largely of traders and merchants. As for central banks, though only 6.6 per cent of the total advances by all such banks in India had been given to individuals, the percentage was very high in some States such as Rajasthan, Madhya Bharat, Madhya Pradesh and Hyderabad.

Figures relating to the fresh advances made by central banks to various types of societies are available only for Madras. The total amount so advanced was Rs 44.75 crores in 1951-2. Out of this, only Rs 7.66 crores or 17.1 per cent was advanced to rural credit societies. Among the districts selected for the Survey, the percentage was as low as 2.5 in Malabar, 7.4 in Kurnool, 8.1 in Cuddapah and 9.2 in Chingleput.

The following table gives all-India figures, for different types of societies, of the outstandings of their loans from apex and central banks:

| | Loans held by these institutions from apex and central banks | | | |
|---|--|-----------------|------------------------------------|-----------------|
| | On 30 June 1951 | | On 30 June 1952 | |
| | Amount (in crores of rupees) | Per- centage | Amount (in crores of rupees) | Per- centage |
| <i>Primaries</i> | | | | |
| Agricultural | | | | |
| Credit | 18.78 | 46.1 | 22.70 | 51.6 |
| Non-credit | 3.68 | 9.0 | 3.97 | 9.0 |
| Non-agricultural | | | | |
| Credit | 3.95 | 9.7 | 3.51 | 8.0 |
| Non-credit | 3.39 | 8.3 | 3.48 | 7.9 |
| <i>Central non-credit societies</i> | 4.12 | 10.1 | 4.95 | 11.2 |
| <i>State non-credit societies</i> | 1.64 | 4.0 | 0.53 | 1.2 |
| <i>Held by individuals from</i> | | | | |
| Apex banks | 2.03 | 5.0 | 1.83 | 4.2 |
| Central banks | 3.15 | 7.8 | 3.06 | 6.9 |
| Total | 40.74 | 100.0 | 44.03 | 100.0 |

(A.C.D.)

It will be seen that the total amount held by various types of societies and individuals from apex and central banks amounted to Rs 44.03 crores¹ out of which only 52 per cent (or Rs 22.70 crores) were held by primary agricultural credit societies. The rest was held by other types of societies. Loans held by individuals (who, as we have said, may be presumed to consist largely of traders and merchants) from apex banks and central banks together amounted to about Rs 5 crores forming 11 per cent of the total. Further, non-agricultural credit societies consisting of urban banks and various other types of urban credit societies, held Rs 3.51 crores or 8 per cent of the total.

In other words, only part, and nowhere near the bulk, of the resources of the higher financing agencies is utilized for financing agricultural credit societies. That the inadequate priority accorded to agricultural credit could not have been wholly

¹ Exclusive of Rs 10.62 crores held by central co-operative banks from other central co-operative banks or from state co-operative banks, since the inclusion of this figure would amount to double counting.

due to the inability of the primary society to lend any more than it does at present is clear from the example of Bombay where, with the adoption of a new policy, it has been found possible to advance considerably more to the cultivator through the existing primary credit society. This it has been possible for Bombay to do without effecting much reorganization at the primary level and without any significant reorganization of co-operative marketing.

REASONS FOR THE "FAILURE" OF CO-OPERATIVE CREDIT

WE would commence this chapter by reiterating our conviction that there is no real alternative to some form of co-operative association at the all-important rural base of agricultural credit. Further, we would affirm our belief that Indian co-operators and the Indian co-operative movement have, by specific individual achievements in the sphere of agricultural credit in many States, under handicaps which we shall presently analyse, demonstrated that, even at levels higher than the base, there is eventually no alternative more suitable than a co-operative form of credit organization. In making the latter statement, it is necessary to distinguish between significance and dimension; between the degree of promise for the future, discernible in success, however limited, and the extent of fulfilment in the past in terms of measurable success and failure.

2. It is generally recognized that the development of the co-operative credit movement in India has been inadequate in three important respects. There are large parts of the country which it has hitherto not covered; even in those areas to which it has extended, there are large sections of the agricultural population which still remain outside its membership; and even if attention is confined to those who are members of co-operative credit societies, the large bulk of their credit requirements is met from sources other than co-operative. What is not as widely recognized is that the magnitude of this threefold inadequacy is such as to warrant, from the quantitative as distinguished from the qualitative aspect, only one judgement, namely, 'failure', on the fifty year record of the co-operative credit agency in this country. The data of the Survey confirm that no other description of the record would be appropriate.

3. For the inadequacy of co-operative credit, to the extent it is generally conceded, several causes are from time to time cited. Reserving some of the more important social and economic causes for examination in the two succeeding sections, we may, for the present, consider such of the non-economic causes as usually appear in diagnoses of the poor development of the Movement. These may be classified as structural and functional, in so far as they relate, respectively, to the organization and working of co-operative credit societies and banks; in addition, the low level of education generally, and the lack of training of co-operative personnel in particular, are frequently mentioned. The degree of intervention by the State in the policies and working of the Movement also figures in discussions on the subject. In their bearing on the structure of the credit society, two important aspects are the size of the society and the nature of the liability, limited or unlimited. In regard to function and operation, one issue concerns the relative merits of single-purpose and multi-purpose societies and another relates to the degree of co-ordination between central banks and primary societies.

REPUTED CAUSES

4. Concerning the size of the society, the orthodox attitude is that expressed by the Maclagan Committee—"It is a good general rule that there should be one society to one village and one village to one society." A somewhat different view is reflected in the resolution passed by the Fifteenth Conference of Registrars of Co-operative Societies (1947) that the area of operations of a primary multi-purpose society should ordinarily be the village; that in tracts where villages are very small there may be one primary society for more than one village; and that the area of operations of a *mandi* trading society should cover all the villages from which produce is brought to the *mandi*. Our comment at this stage is that, while the size of the society is undoubtedly important in the reorganization of co-operative credit, it cannot be regarded as by itself a crucial factor in explanation of the poor record of the credit movement.

5. The issue of limited versus unlimited liability has been a controversial one. For a recent opinion on this subject, reference

may be made to the views of the Co-operative Planning Committee (1946) and the Agricultural Credit Organization Committee, Bombay (1947). The Co-operative Planning Committee was of the opinion that unlimited liability has not been very helpful to the progress of co-operative credit; it, therefore, recommended that except where unlimited liability has produced good results, the liability of the reformed and reorganized primary society should be limited. The Agricultural Credit Organization Committee stated that a free hand should be allowed to the agriculturists to form their societies either on limited or unlimited liability.

6. The preference for the multi-purpose form of co-operative society, as distinguished from the society concerned only with credit, arose in circumstances which have been referred to in Chapter 13. Neither the figures given there nor the instances of actual working of societies cited in Chapter 3 indicate that, from the point of view of credit development and in terms of the Movement as a whole, the type of 'multi-purpose' activity usually adopted by societies has made any significant difference.

On the issues of liability and purpose, it will suffice to note at this stage that, even though the considerations connected with them are important for future reorganization, no real clue to the unsatisfactory progress of co-operative credit in this country can be detected in either of them.

7. The other functional aspect we have referred to is the lack of co-ordination. A lack of co-ordination on the part of central banks with societies on the one hand and with apex banks on the other is a feature common to the working of the credit structures of many States, as has been briefly noted in an earlier chapter. It is a feature which itself requires explanation, and we trust part of the explanation will be found in this chapter and some of those which follow. Meanwhile, we may observe that it does not appear that it is defective structural organization or functioning, whether in the matter of co-ordination or in some other respect, which is at the root of the undeveloped state of co-operative credit. In quantitative terms, e.g., proportion of the total borrowings of cultivators met by co-operatives,

some of the poorer records pertain to States that possess credit structures which are relatively well organized and well co-ordinated.

8. The general lack of education and the inadequacy of training are two features emphasized as very important by the Royal Commission on Agriculture (1928) as causes for the poor growth of Co-operation in India. The Preliminary Report (1936) and the Statutory Report (1937) of the Reserve Bank of India emphasized that the lack of training in commercial banking methods was one of the main causes of the unsatisfactory record of co-operative credit in India.

While the level of education and the standard of training emphasized in the above Reports are no doubt important factors in the situation, neither or both of these can explain, for example, why as little as 3 per cent of the total borrowings of cultivators is forthcoming from co-operatives, not only as an all-India average, but even in a relatively advanced State such as Madras. For more fundamental reasons we have to direct our search elsewhere.

9. Official sponsorship of the co-operative movement in India is sometimes regarded as one of those features which explain the inadequacy of its record compared with what it has been able to do in other countries, especially of the West. All that it would seem possible to say at this stage is that, in Indian conditions, larger State regulation than usual in Western countries has been found necessary in the initiation and sponsorship of the co-operative credit movement. That such sponsorship has itself been among the main causes of lack of development does not seem *prima facie* valid and is not a proposition which has been accepted by Indian co-operative thought.

DEEPER CAUSES

10. The features noted in the last section as 'reputed causes' of the failure of co-operative credit are, all of them, other than economic. The more fundamental causes of the failure are in our opinion economic and socio-economic; the more important of these causes are considered in this section.

II. We may start by noting that studies of the relatively low progress recorded by the co-operative credit movement in countries comparable to India in the aspect of economic under-development point in some instances to the same conclusion as we have indicated, viz., the phenomenon cannot be satisfactorily explained in terms of the non-economic causes to which it is usually attributed. The following extracts are reproduced from a paper published by the Department of Economic Affairs of the United Nations:

"... The possibilities of achievement by credit co-operatives should not... be exaggerated particularly in the conditions encountered in Asian countries. In India, China, South-East Asia and the Middle East, credit shortage is the effect of poverty as well as its cause; the high burden of debt incurred by small farmers and tenants is symptomatic of economic maladjustments which go deeper than the deficiencies of the credit system. In these conditions, a high level of farm indebtedness does not indicate a high level of investment; it results to a great extent from the habit of borrowing to finance consumption.... No change in the machinery of credit-giving can be a sufficient remedy so long as consumption tends to run permanently ahead of production. The vicious circle of poverty, debt and high interest rates, can only be broken by measures which increase the productivity of the holding and lessen the rent and tax burden."¹

These observations illustrate how unconnected with most of the reasons usually alleged may be the real causes of the failure of Co-operation as an agency of credit, and of economic development generally, in the view of those who have studied conditions which are not wholly dissimilar to those of India. For an analysis of the main factors, we may start with the aims of Co-operation in the village. These are tersely and strikingly expressed in what may seem a slogan, but is in fact a fundamental statement of co-operative and economic objectives, viz., 'better farming, better business, better living'. We may deal with each of these interconnected items in that order.

¹ *Selected Readings in Agricultural Credit*, International Conference on Agricultural and Co-operative Credit, 1952, pp. 72-5.

Better farming

12. Better farming may be interpreted as standing for everything connected with the proper development of the economic resources of the farmer. Thus, it includes legislative reform such as the modification of tenure, tenancy, rent, etc., in the direction of individual incentives for better production; the reconstitution of the farm by consolidation or co-operative farming; the creation of larger facilities for irrigation; the supply of better seed and manure; availability of subsidiary occupations; and so on. Co-operative organization in the village, even if it did not suffer from many of the usual handicaps, would not by itself be able to take on most of the preliminary tasks involved in bringing about these conditions. Many of them require the planned initiative of, and adequate finance from, the State. The position, in so far as the State's initiative is concerned, is undergoing rapid modification. For instance, the reform of tenure and tenancy laws, establishment of major and minor irrigation projects and the distribution of seeds and fertilizers, are being undertaken by Government on a much larger scale than hitherto. But the point to notice is that one of the three objectives of co-operative economic development, of which co-operative credit development is only a part, has until quite recently been not only outside the effective scope of the Indian cultivator's ability but, by and large, also outside the State's priorities, interests and activities except as limited and unco-ordinated features of policy.

Better business

13. We may now turn to the second objective, viz., 'better business'. The cultivator is vitally concerned with two aspects of business, viz., (1) credit and (2) the economic activity which follows production, e.g., processing, storage and marketing. If he decides to transact any of these through a co-operative association, whether the village society or some larger co-operative organization, assuming that it is available to him, he soon finds—barring very exceptional instances—that neither the society nor the organization is even one-tenth as useful to him as the moneylender, the trader or the miller. The moneylender may stipulate a higher rate of interest than the co-operative, the trader pay a lower price, or the miller

charge unduly for the services he renders. But the fact remains from the point of view of the cultivator that he is able to get from the moneylender a large enough loan for the sub-standard needs of consumption and production which he has to meet from time to time before the harvest. As for trader and miller—the latter, it may be noted, is often a trader as well in the commodity he processes—the cultivator finds that they too provide the much-needed facility of credit (besides that of marketing) either in the form of a loan, which incidentally ensures his selling his produce to them, or in the shape of an advance payment of purchase price. As pointed out in Chapter 5, agricultural processing is largely in private hands, and the co-operatives have not, except in a very few instances, succeeded in entering this field. Thus, it is the private agency, by and large—moneylender, trader and miller—and not the co-operative that provides an essential facility, namely credit, to the cultivator on the strength of his crop or of his repaying capacity generally. Moreover, it is these rather than the co-operative marketing society that effectively hold open for him the door to the urban market.

14. The basic fact in the village, then, is the competition, virtually the opposition, which the co-operative credit society and the co-operative marketing or other society has to withstand from relatively powerful private agencies. It matters not, as a factor in this competition, that the co-operative purports to act for the benefit of the cultivator and has objectives not shared by the private agency. The ubiquity of this agency, its widespread network from village to town and city, and in particular, the financial strength which it derives from its connexions with some of the most powerful elements of the urban economy, are all of them important factors which place the co-operative society and organization at great disadvantage in comparison with it and render the competition between them wholly unequal and one-sided. The trader, who is also often the village moneylender, can deal with the trading agent, the town moneylender, the indigenous banker and the commercial bank and, where needed, get financial accommodation from one or another of them. The latter, in turn, can replenish their finances from the wholesale trade or the bigger commercial

banks in the cities. In the subsistence, as distinguished from commercialized, tracts where the trading and commercial links of finance are absent, the private moneylender, for whom there is little or no competition at all to contend with (as we have pointed out in Chapter 11) is in an even more powerful position than elsewhere *vis-a-vis* the co-operative society. Few others, besides him, possess enough liquid resources to be able to lend; there are usually no arrangements for the remittance of cash such as might encourage the establishment of a co-operative bank; and the moneylender has connexions with other moneylenders or indigenous bankers in the urban areas to supplement his cash if he is so minded. In the face of this opposition, which in different areas (subsistence or commercialized) exists in different forms, but everywhere with strength which is more or less the same—a strength derived from the urban economy farther afield—the position of the co-operative society is that it can look up to Government for little else than administration, supervision and advice; for financial resources, it has largely to resort to the central co-operative banks which in turn, as a form of federation of the societies lower down, reflect the financial weakness and generally the powerlessness of the societies themselves. The same comments usually apply to the state co-operative bank except in those instances in which it has a certain degree of additional resources by reason of the State Government's being a participant. The Reserve Bank at the top provides finance to both the channels—commercial and co-operative—which in this context may be regarded as ultimately, though in small part, reaching the cultivator. But, barring recent changes in policy, the Reserve Bank's accommodation is, among other things, related to the financial strength of the credit institutions which approach it for accommodation. Even in this respect, therefore, it is normally the commercial channel, which at several points feeds the trader and the moneylender, that receives the larger volume; whereas the co-operative channel gets, by and large, what its weaker financial structure warrants. The opposition, then, which the co-operatives face at their different levels—base, middle and apex—is from a private set-up of trade and finance which is not only much better organized in regard to its technical services but also much more adequately and

powerfully financed from above. Financially and structurally, the one is a weak federation of weak units in which the poverty of the rural base is matched by the lack of strength of the urban apex, whereas the other is a strong, powerful and well-soldered projection from a relatively prosperous urban economy at the top into a rural sector of commercial activity and commercial domination at the bottom.

15. It is not the fact of this opposition alone, extremely important as it is, that explains the poor growth of co-operative 'business', whether of credit or of processing and marketing. Within the co-operative sphere itself are elements—methods and practices of the system on the one hand and attitudes of mind of individuals on the other—which have hampered and vitiated the credit movement from within. One of the most striking of these is that offered by the co-operative assessment of 'creditworthiness' as it has developed over the years; we have referred to this aspect on more than one occasion. From character and repaying capacity, as judged by local knowledge and kept under review by local vigilance, co-operative credit, at a very early stage, gravitated to ownership and landed security. Co-operative practice has, by and large, persisted in this bias towards ownership as the criterion of creditworthiness in spite of periodical exhortations to the contrary.

This substantial deviation between co-operative principle and co-operative practice is only partly explained by factors such as the influence which the bigger landowner tends to wield over the rural society or the failure of honorary direction and supervision and the consequent need for Co-operation to look out for some more tangible form of security than character or capacity. The explanation is to be found in the pursuit of the line of least resistance by rural societies, as well as by central and apex banks, which on the one hand have been powerless to compete against the private trader and the private moneylender and, on the other, have had little incentive to gear the system to the benefit of the landless tenant or of the medium and small farmer. The *panchayatdars* and secretaries of the primary societies, no less than those higher up in the structure such as the directors, managers and supervisors of central banks, tend in the majority of cases to look out for

the least troublesome form of security as basis of creditworthiness, something which does not require a great deal of effort, supervision and organization. 'Character' and 'repaying capacity' having been eliminated for this reason, the broad alternatives for security are a saleable right in land, such as ownership or the annual produce from the land. The landless tenant, however big, cannot offer land because he does not own any; he may be a protected tenant, but that is a right which under law cannot be alienated; or he may be an unprotected tenant, in which case he has usually nothing at all to offer with the exception of the produce of his land. But then there are good reasons for the cultivator not offering his future crop as security to the society or for his not fulfilling the promise even if he has offered it. In some instances, the reason is the pressing need for credit, in order to obtain which the potential crop has already been offered to and accepted by somebody else—the miller, the trader or the moneylender—long before the harvest. The main reason, however, in these as well as in the majority of other instances, is a basic need—one which is more important than just credit—namely, the need for effective access to the urban markets which, by and large, only the private trader today provides to the cultivator. The co-operative society does not satisfy either of these needs—credit and marketing—except in small fraction and except in relation to a small number of cultivators. So while the landless tenant, as also the medium or small producer generally, has usually only his still unharvested crop to offer as worth-while security, Co-operation for its part has little or nothing to offer in return. The private trader, because of the financial resources at his back, and the private moneylender-cum-trader, because of both resources and local knowledge at his back, are both in a position to offer the credit urgently required by the cultivator at the time he needs it and, what is more important, they are also able to provide the marketing arrangements (including processing, storage, etc.) which help the final disposal of his produce. It is therefore to them that the cultivator sells his crop or pledges it in advance either formally or informally. With more resources and the willingness to take more trouble, co-operatives should be able to provide finance in at least larger volume than at present in the form

of crop loans based on acreage and the nature of the crop grown. A more radical improvement in the position would, however, be possible only if co-operative marketing is so efficiently organized that the produce of all members is channelled through the marketing society. But a development of this kind would be possible only when the financial and technical resources of the marketing society are such as to enable it (in conjunction with the credit society) to offer both credit and services on an adequate scale, the former in advance of the harvest, as the trader, the processor and the money-lender do, though not of course on the same usually extortionate terms. Co-operation as now organized from the bottom is unable to muster in adequate degree either type of resource, financial or technical. Unless it is enabled to do so, it will tend to look away from produce as security. Equally, it will continue to consider land and the guarantee of the landed as the most suitable and least troublesome form of security. We have here then a vicious circle in which powerlessness to compete with the stronger private interests vitiates one of the first principles of Co-operation and further adds to the powerlessness. This coexistence of three important facts, viz., (1) the organic connexion between credit, marketing and processing, (2) the powerful urban-derived competition arrayed against co-operatives in each of these spheres, and (3) the weak rural-based structure of co-operative credit, provide in our view an important explanation why co-operative credit has by and large failed in this country.

16. We have considered agricultural credit and marketing and, in its aspect of association with the latter, also agricultural processing. In the context of 'better business' have also to be taken into account items of industry which are ancillary to agricultural production or are otherwise part of the larger rural production. Agricultural processing figures here again; then there are dairying, livestock-breeding, etc., as aspects of 'mixed' farming; and there is also of course the whole range of cottage industries in the rural areas. Not only co-operative credit and marketing, but also co-operative processing, co-operative organization of cottage industries and several other forms of co-operative economic activity have to face the same

unequal competition from private trade and finance which we have referred to in connexion with credit and marketing, and, in addition, from organized private industry including the bigger manufacturing concerns.

17. But, as we have pointed out, opposition from outside the co-operative organization, however significant as a cause of the failure, is by no means the only important factor in the situation. Within the co-operative fold itself are ingrained attitudes, habits and want of active sympathy, which have seriously hampered the growth of co-operative credit and co-operative economic business. As long ago as in 1915, the MacLagan Committee listed the 'occasional partiality to themselves' of managing committees (of primary societies) as among weaknesses 'only too apparent in India'. This tendency may be traced to the character of village leadership, to the bias towards ownership of land and to the influence of caste. In central co-operative banks, in many parts of India, the same influences may be seen to be at work, either in the form of a negative and unhelpful attitude towards the interests of medium and small cultivators, or of the 'tenant' class as distinguished from the 'owner' class; or in a positive bias towards urban interests including, in particular, the interests of the trader class in towns and cities. This opinion is shared by several experienced co-operators, official and non-official, who have given us the benefit of their views. In the apex institutions of the co-operative structure, such as state co-operative banks and central land mortgage banks, one often finds alongside of much in the leadership or direction that is genuinely co-operative, a very considerable bias, conscious or unconscious, towards urban interests such as private trade, and propertied classes such as the bigger landowners. Moreover, in some of the States, the boards of the state co-operative banks include heterogeneous urban elements not particularly attuned by training or temperament to the needs of rural areas. In some of them, there is considerable conflict between the representatives of the central banks on the one hand and those more directly concerned with the proper management of the apex banks such as official and non-official nominees of the State Government. Progressive credit policies for the benefit of the

cultivator and for the promotion of production have usually little chance of being pursued in the conflict of interests and attitudes which is a characteristic of some of the less well-developed state-co-operative banks.

In the light of what happens in banking institutions specially designed for the supply of rural credit on a co-operative basis, it is not surprising that the much more urban-minded and profit-motivated commercial banks, insurance companies, etc., have little use for the agriculturist and agricultural finance. The record in this respect of commercial banks, elsewhere illustrated by figures, bears out this statement.

18. We shall, in the next chapter, have occasion to refer to recent changes in the policies of the Reserve Bank in regard to the promotion of agricultural credit. Meanwhile, as illustrative of the position as it obtained some years ago, may be mentioned the typically 'bureaucratic' summing up and disposal of issues connected with co-operative credit which figures in the Statutory Report which the Reserve Bank submitted to the Governor-General-in-Council in 1937.¹ It may be noted in this context that the attitude of the Central Bank of a country, as indeed that of its bigger commercial banks and financial institutions, is obviously a matter of great importance to the specialized structure of agricultural finance.

19. In the sum total of the attitudes and environment, psychological, sociological and other, of co-operative societies, central co-operative banks, apex co-operative institutions, commercial banks, insurance companies and the Central Bank of the country, consists the climate of institutional credit; that climate in Indian conditions has been preponderantly 'urban'; it is not yet congenial to rural interests and the fulfilment of rural needs. It is in this climate that the rural producer is expected, by and large, both by co-operative theory and governmental policy, to combine with other rural producers, form co-operative associations at the village level and through them conduct his 'business' in so far as it concerns credit. He is expected to do this without financial assistance of a significant order from the State, but with a great deal of administrative

¹ *Statutory Report*, Reserve Bank of India, 1937, pp. 38-9.

advice and guidance from it. Having formed an association, he is left to face the powerful competition of private credit, private trade (often private moneylending-cum-trade) and private organization of industry, all of them deriving strength and support from the urban apex—whether of commercial banking and finance or of export or wholesale trade. In the same context, the rural producer is expected to organize himself co-operatively for the promotion of the processing, marketing, etc., of his harvest. Added to all this is the cleavage of interests in the village itself, with the bigger landlord, the village moneylender, the village trader, etc., on one side and the medium and small cultivator on the other. Village leadership, vesting as it does in the former, usually operates partly for the advantage of the more powerful economic interests and partly in alignment with the social institution of caste; and village leadership thus constituted and biased makes itself felt in every institution in the village including, of course, the co-operative society itself. How this combination of circumstances outside and inside the village has arisen in India will form the subject of the next section. Meanwhile, we may conclude at this stage that in this combination resides the basic reason for the failure of the co-operative efforts at 'better business' in its twofold aspect of better co-operative credit and better co-operative economic activity.

Better living

20. The third main objective of Co-operation mentioned at the outset was better living. More and more has co-operative theory in India, in recent decades, shown an inclination to shift the emphasis to this aspect of the function of co-operative organization. To assess the validity of this change in emphasis we have to recall that in the conditions just described, the progress of Co-operation in this country has taken place in the manner of what may be described as an inverted handicap race: the bigger handicap being attached to the weaker in the race. Even within this grave limitation, a certain number of miscellaneous reforms might arguably have enabled Co-operation to do a little better than it actually has; but it is only of academic interest to speculate on what more it might, not have done with an improved method here, with some better

provision for training elsewhere, and so on. The main difficulties would still remain; they are far-reaching and fundamental. Knowingly or unknowingly confronted by these, it is perhaps no wonder that the co-operative movement has started to think more and more of better living. Partly, this can only be described as escapist. Not successful, in co-operative action, with better farming and better business, not fully realizing, it may be, that the want of success is much more due to forces beyond Co-operation than to weaknesses within it, co-operative thought and co-operative prescription have tended to seek refuge in the hypothesis that if only the functions and activities of the society are directed to all aspects of life, instead of only to farming and business, the Movement will have much better chances of success. There seem to be discernible here two wholly distinct contexts in one of which the idea may be valid, but of limited application, while in the other it would be fallacious and misplaced. A strong society, which is generally a society which has either certain advantages in regard to leadership etc., or against which, for some very exceptional reason, are not arrayed the urban forces indicated in the foregoing paragraphs—such a society may indeed achieve better progress than it hitherto has if it concentrated not on a single purpose but on the many purposes implicit in better living. To treat the same remedy as appropriate for a weaker society, which, because of those forces, is not able to organize either its farming or its business on anything like a reasonable level of efficiency, is, in our view, to commit a fundamental mistake. Generally speaking, better living can only come as the accompaniment or sequel of better farming and better business, and the two latter will be successful only when the conditions requisite for their success are first brought about.

FUNDAMENTAL CAUSES

21. Reviewing the statistics of co-operative credit for the period 1906-7 to 1911-12, the Maclagan Committee observed, "Local conditions varied so widely that progress was by no means uniform and in different regions very different types of societies began to make their appearance. But in no Province did the new doctrine fail to strike root . . . The progress

made in the first few years of the Movement was remarkable." The conclusion that the primary co-operative society had taken root in this country was premature then, and would perhaps be still premature now nearly forty years after the report of the MacLagan Committee. Indeed, there is a certain degree of truth in a description we have come across of Co-operation in this country as 'a plant held in position with both hands by Government since its roots refuse to enter the soil'. More than the roots of Co-operation, it is the tentacles of private economy that have acquired grip in rural India.

The not-so-strong can combine co-operatively and get the same advantages as the strong. But the very weak are not in the same position as the not-so-strong; certainly not if the strong have, in addition, 'a whole reservoir of institutional strength from which they can add immeasurably to their own. This disproportion provides a key to the wholly different records of co-operative credit in the West and in India; for, Co-operation can succeed only if, between the forces of Co-operation on the one hand and the opposing forces of private credit and private trade on the other, the disparity that ever tends to be present does not exceed certain reasonable bounds. In India, not only has there been too wide a disparity between the internal strength of the co-operative structure and the external forces pitched against it in competition; these latter have in many insidious ways entered into and vitiated the internal cohesion of co-operative bodies themselves. No more than an outline of how this has happened is attempted in this section.

22. In India today there is an aggregate of private financial power, which in point of location is largely urban and in point of bias is almost wholly urban-minded. In appreciable degree, this may be regarded as the heritage of a colonial economy, which, seated in the bigger ports and cities, drew to itself for export abroad the raw materials—the 'cash-crops'—of the rural area, and which, in that process, signified also the advent of the cash economy to the country-side; certainly, in the details of its interpenetration from city to town and from town to village and in its main ramifications in the rural area it drew sustenance from the hoary inequities of caste and class and privilege. The cash economy brought with it changes which

had inevitably to come to the rural area; for, the advent of the economy itself—irrespective of the historical accident of its colonial origin in this country—was inescapable in the conditions of the modern world. Money and the use of money assumed much larger significance than before even in those 'subsistence' areas, usually also the remoter rural areas, where payments and transactions in kind, including a residual extent of barter, were significantly prevalent. As a rule, however, the powerful interests of export succeeded in imposing the cash economy only within the periphery of their own transactions with the rural economy. In the cities and towns grew up bodies which were ancillary to the main institutions of export trade and finance. These subsidiary elements consisted of banks, firms, trading houses and individuals—agents, financiers, etc.—representing the indigenous interests which found it profitable to work for or in conjunction with the more powerful foreign institutions, into many of which, indeed, they later found entry and which in some instances they even replaced. Lower down in the rural area was the village moneylender and the village trader, often the same individual, as well as the small-town moneylender and the small-town trader or commission agent, again often the same individual, who also aligned themselves to, for indeed they were the necessary instruments of, the new economic system which rapidly invaded the old. Where there was self-sufficiency before, these forces of commercialization worked for the larger production and outflow of the particular commodities—cotton, jute, etc.—which were originally needed for export to the big manufacturing centres abroad and at a later stage for the urban industries which had meanwhile grown up within the country itself. Large tracts of the country retained their character as food-crop or subsistence economies. But they too were affected in varying degrees by the new cash needs imposed on them through the gradual disruption of the older self-sufficiency. At the same time, the banking institutions of the commercialized economy were little interested in these areas, and in them the moneylender, as distinguished from the trader in cash-crops, assumed greater power and importance than elsewhere. In its industrial aspect, rural self-sufficiency had been affected even earlier, since, for one thing, the products

of cottage industries had to compete with those of organized industry, foreign and indigenous. The reaction of those who sought to advocate a return to the old order was wholly unrealistic. Much more to the point would have been a planned and determined attempt on the part of the State to minimize the socio-economic effects of the new and inevitable forces on the millions of people adversely affected by an unplanned transition from one order to another. But this implied an enlarged concept of the functions of the State; and even the partial recognition of such a concept, in the actual working of Government as distinguished from mere theories as to the role of the State, was at that time a distant development yet to come. In India, it would have been futile to expect any significant recognition of the concept until after political power passed to the people themselves. Even so, it required the conditions created by the last World War to induce some recognition of the political, social and economic necessity of State intervention, State control and State planning for the benefit of classes and areas less favourably situated than the rest.

23. Meanwhile, for several decades there continued to operate, as there still operates, a mechanism of trade, finance, etc., the working of which has, by and large, been consciously or unconsciously against the interests of the rural population generally and the rural producer in particular. The resulting conflict may be very broadly described as between the 'urban' interests which had now established themselves and the 'rural' interests which had always existed. The new pattern was such that the access to seats of power and sources of finance was largely cut off from the weaker sections that formed the bulk of the rural population. The location of both power and finance continues to be largely 'urban', and the institutions so located tend inevitably to be urban-minded in the sense that their directors and executives respond much more readily to urban than to rural interests. The urban-mindedness usually also extends to the more significant institutions of the State and to the headquarters and sub-headquarters of the administrations of the different Governments. To these seats of power and sources of finance, public and private, is established a chain of contact, influence and, where relevant, financial interrelation.

At the far end of the chain, that is to say the village, are the village leaders, such as *panchayatdar* and *patel*, who occupy the local seats of power, and the village financiers such as moneylender and trader who are the local sources of finance. In view of their being a part of the channel of power and finance, they are also the recipients of power and finance from sources and reservoirs higher up the channel. Sometimes two or more of these—the village leader, the village lender and the village trader—are one and the same person; and a broad affinity governs their attitudes towards the rest even where there is more than one leader, more than one lender and more than one trader. Leadership in particular is important. It may be based on the ownership of property, on the advantage of education, on the hereditary position held in the preponderant local caste, on a combination of all or some of these factors and finally—and growingly—on political influence. All too rarely is effective village leadership based on merit or culture or on capacity to be of service to the village itself. When this leadership happens to be outside the local village institutions—the co-operative society in the present context—it is a danger; when it is inside these institutions it is even more potently and more presently a danger. The danger partly arises from the fact that, while the State has a vested interest in the success of Co-operation, private banking and private trade, particularly at the village level, have a vested interest in the failure of co-operative credit. This is less and less strong and more and more implicit and impersonal at the higher levels, but stronger and more explicit at the lower stages. When local Co-operation gets into the charge of the village moneylender, and more especially the landlord-cum-moneylender, he becomes the society, the depositor and the borrower, all of them together or each in turn, with the ease with which the one Godhead becomes Brahma, Vishnu and Shiva—Creator, Preserver and Destroyer—in the more picturesque expressions of Hindu philosophy, or with the elusiveness with which matter and energy exchange roles in the more recent refinements of nuclear physics.

The affinity of interests between moneylender and trader and their common interest in the failure of co-operative credit can be readily explained. Both moneylender and trader, in

so far as they are interested in the producer of cash-crops or foodgrains which are sold in the urban market, derive that interest from the fact that there is enough profit at the marketing end to make their own transactions with the producer profitable, whether in the form of interest on moneys lent or of commission on goods sold; in other words, they are, in this context, a part of the financial and trading machinery which operates in order to supply urban demand which is relatively paying, whether this demand is related to consumption, manufacture or export. Credit for production and finance for marketing at the village level tend in these circumstances to be, if not in the same hands, at least in the hands of those who see with the same eyes and work for the same ends, this co-ordination being dictated by the character of the demand which is supreme over both production and supply. It is inconceivable, for example, that credit for production could be largely co-operative while finance for marketing and processing remained largely private.

24. It is not only the urban-induced power of the private moneylender and the private trader that affects the success of co-operatives when it manifests itself either inside or outside the society. Affinity is not confined to these two; it extends to the leadership in the village, whether this is based on property or derived from connexion with the administration. The bigger landlord has ways which conform with those of the moneylender, and indeed, as we have said, he is often the moneylender or trader himself. The village headman is also drawn from the same class, and it is usual for these to have connexions which link them not only to the sources of finance but to the seats of administrative power. Subordinate officials, revenue and other—including those of the relatively low-paid co-operative department—have often no alternative but to stay with these village leaders and be dependent on them for ordinary amenities when they visit the village or camp in it for a few days. In this and other ways is initiated a process of association with those who wield power and influence in the village and who for that reason have their own uses as the local instruments of an administration which resides in towns and cities and which in varying degrees is inaccessible to the ordinary villager.

This close conformity of association and interests between the subordinate officials of Government and the more powerful elements in the village is a matter to be borne in mind as of great significance in explaining the failure of implementation of the policies and directives, co-operative or other, emanating from the higher levels of the administration. Sometimes, temporarily overawed by superior official authority or enthused by missionary-minded officers, an important measure of co-operative policy, for example, may in fact be translated into practice in the village; but it is not often that the effect is lasting; frequently the directions merely remain on paper, especially where they involve some disadvantage to the more powerful in the village. Acting in concert with these, the subordinate official, whose functions take him to the village, creates for the benefit of the superior officers what might be called the illusion of implementation woven round the reality of non-compliance. Several factors in the village help to create this effect, not least among them the powerful influence of caste. If the leader is of a particular caste, it is unusual for others of the same caste in the village to report to superior authority that things are otherwise than as reported by the leader and the subordinate official. This marked tendency towards the promotion of an impression of change around changelessness, of active obedience to behests around stolid resistance to instructions, which only the most persistent and detailed supervision from above can check, has always to be taken into account in assessing the worth of reports that the policies of Government have been put into operation in the village. The consideration is one which must qualify both satisfaction and belief when it is found stated, for example, of a particular area, that tenancy laws have been enforced, or that moneylenders are not operating without due authorization, or that co-operative societies are actively functioning from year to year. The *status quo* and the non-compliance are often achieved conjointly and at great effort by the leading elements in the village and the subordinate agencies of Government. The balance attained may be the result of some completely new alignment of forces, of some new distribution of perquisites or of some new passing of 'consideration'. The persons who suffer in this process are the weaker and disadvantaged

elements of the village for whose benefit the directives and policies are conceived. Among the combinations of factors which thus operate against the interests of the bulk of those who reside in the village is the rigidity of caste feeling in conjunction with the power derived from money, land, leadership, and above all the affiliation with the superior forces of urban economy. The rigidity of caste loyalty remains, while the original division of caste functions no longer does. The result is that the landlord who may also be moneylender, the moneylender who may also be trader and the educated person who may also be subordinate official, all these through their association with the outside urban world of finance and power wield an influence in the village which at many points is diverted from the good of the village to the benefit of the caste or even of a close circle of relatives.

In considering the record of the co-operative credit movement in the Indian village, it has accordingly to be remembered that in India, as wholly distinguished from other countries, there has been the unique *combination* of the following features: (1) a socio-economic structure largely based on caste within the village itself, (2) the linking up of the upper parts of that structure to a cash economy and an administration centralized in the urban sector, and (3) the fact that the linking up took place as the outcome of three processes which historically happened to operate *together* in India, viz., colonial rule and administration, commercialization of agriculture and urbanization of industry.

25. It is within a socio-economic structure so distorted by this combination of events and forces as to present a grave disparity within the village itself and an equally grave disparity between the village on the one hand and the town and the city on the other, that the co-operative effort to develop credit has hitherto taken place in India. Co-operation had—and has—the great mission of seeking out the greatest common measure, firstly of good in the economic sense and secondly, but not less importantly, of good in the ethical sense in the leadership and following of the Indian village. The task in effect was to combine these two elements of good and to direct the force so generated towards a great endeavour for the

common betterment. Perhaps, in this effort, Co-operation might have succeeded a little better if it had recruited a band of devoted workers at and from the village level capable of knowing and applying the co-operative technique among their coequals. Attempts have indeed on occasion been made by co-operative leadership to build up a body of competent co-operative workers from the village upwards. But it was not the fault of the leadership or of the Movement that an approach which had to be at once scientific and missionary, village-minded and country-wide, failed to be adopted on any significant scale. It may be that the time itself was not ripe for such techniques. In any case, for a non-official agency the task was stupendous. For Government, as till recently constituted, the task was impossible. The context has now changed and the time is clearly propitious. This is specially true of the opportunity which now presents itself before Government, of developing co-operative societies—or administrative *panchayats* or other comparable village institutions—in a manner which ensures that those institutions, together with the structure of which they are the base, are so designed in their relation to the internal pattern of village leadership as to be for the advantage of the village as a whole and in particular for the protection and benefit of the weaker elements that so largely inhabit it.

26. The failure of co-operative credit is explicable in terms of the total impracticability of any attempt to combine the very weak in competition with the very strong and expect them by themselves to create conditions, firstly for their emancipation from the interests which oppose them, and secondly for their social and economic development in the context of the severe disadvantages historically imposed on them by a structure of the type described. The problem is not so much one of reorganization of co-operative credit as of the creation of new conditions in which it can operate effectively and for the benefit of the weaker. The prevailing conditions cannot be transformed by the very persons who are oppressed and rendered weak by their existence. The forces of transformation have to be at least as powerful as those which are sought to be counteracted. Such forces can be generated not by Co-operation alone but by Co-operation in conjunction with the State.

One may consider an institution for the rehabilitation of crippled children struck down by the malady of infantile paralysis. The little patients are studied, courses of treatment prescribed and carried out, muscles gradually strengthened and all efforts made to rehabilitate them and send them back to normal life. No one has yet suggested that those children should depend on themselves as much as possible and form themselves into a mutual association for individual rehabilitation.

RECORD OF THE RESERVE BANK

THE Report of the Central Board of Directors of the Reserve Bank for the year 1951-2 says: "In no other sphere perhaps as in that of rural finance is it of so little use, in Indian conditions, to turn for guidance to the central banking practices evolved in the highly industrialized countries of Western Europe. In this matter, as in the extension of banking facilities generally, fresh approaches had to be thought out; and it was in order that the lines laid down might be sound and well considered that, at the suggestion of the Reserve Bank, the Government of India appointed the Rural Banking Enquiry Committee (1949-50), while the Bank itself subsequently convened an Informal Conference for the discussion of its role in rural finance (February 1951)." The Report then proceeds to deal with the various changes in policy effected and steps taken in pursuance of the recommendations of the Rural Banking Enquiry Committee and the Informal Conference. A brief study of these recent developments is attempted in this chapter.

RECENT CHANGES

2. It may be noted that, while the statutory *functions* of the Reserve Bank regarding agricultural credit have remained the same, the *powers* have in certain respects been enlarged by recent legislation which took account of the recommendations of various committees and, in particular, of the Informal Conference referred to above. One set of the amendments to the Reserve Bank of India Act is contained in legislation passed in 1951, and the other in legislation passed in 1953.

The first of two amendments passed in 1951 related to section 17(2) (a) of the Reserve Bank of India Act, and, in regard to the purchase, sale or rediscount of bills of exchange and promissory notes arising out of bona fide commercial or trade transactions, placed state co-operative banks on the same footing as scheduled banks. The second amendment related to section 17(2)(b) of the Act; it increased the period of accommodation for

seasonal agricultural operations and marketing of crops from 9 months to 15 months. Both these had been recommended by previous committees and supported by the Informal Conference.

More far-reaching changes in the Act were introduced in 1953 on the basis of recommendations made by the Informal Conference. These changes were as follows:

1. Section 17(2)(b) of the Act was amended to give a wider interpretation to the terms 'agricultural operations', 'crops' and 'marketing of crops' so as to include within its purview '*mixed farming*' activities (i.e., activities undertaken jointly with agricultural operations) and the *processing of crops*, prior to marketing, by agricultural producers or any organization of such producers.

2. A new section, viz., 17(2)(bb) was added to empower the Bank to rediscount bills of exchange or promissory notes of state co-operative banks and state financial corporations drawn for the purpose of financing the production or marketing activities of *cottage and small-scale industries* approved by the Bank and maturing within 12 months, provided the payment of the principal and interest of such bills of exchange or promissory notes is guaranteed by the State Government.

3. A new section, viz., section 17(4A) was added enabling the Reserve Bank to grant *medium-term* loans to state co-operative banks for agricultural purposes, for periods not less than 15 months and not exceeding 5 years provided that such loans are guaranteed by the State Government, do not exceed the owned funds of such banks and do not at any time exceed Rs 5 crores in the aggregate.

3. We shall now turn to a review of the steps taken in the last few years by the Reserve Bank in pursuance of the more positive policies which it has adopted in the sphere of rural finance. In doing so we shall take up each of the distinct lines of action specified by the Reserve Bank's Board of Directors in their Report for 1951-2 from which we have quoted.

Steps for enabling the Reserve Bank to function more effectively within the existing framework

4. Certain important changes were introduced in the procedure followed by the Reserve Bank, in respect of accommodation

to state co-operative banks, as recommended by the Informal Conference. According to the revised procedure which is now in force, the stipulation previously made that all loans and advances should be repaid by a fixed date, viz., 30 September each year, has been given up; each drawal is treated as a separate loan. The credit limit fixed is related not to borrowings irrespective of repayments, but to the total amount outstanding on any day during the relevant period. These procedural changes have enabled state co-operative banks to make freer and fuller use of the financial accommodation provided by the Reserve Bank. The amount drawn by them in respect of such accommodation at the end of June 1953 totalled Rs 1,190.37 lakhs as compared with Rs 537.80 lakhs in 1950-1, Rs 16.80 lakhs in 1947-8 and Rs 1.25 lakhs in 1945-6. The concessional rate of interest at which the accommodation is made available has continued to be $1\frac{1}{2}$ per cent even after the Bank Rate was raised from 3 per cent to $3\frac{1}{2}$ per cent in November 1951. Policy has also been liberalized in regard to the purchase of debentures of central land mortgage banks. The Reserve Bank now takes up 20 per cent of such debentures instead of 10 per cent as previously.

5. Along with these steps intended to make accommodation from the Reserve Bank more liberal, the Informal Conference also suggested that there should be closer co-ordination between the activities of co-operative institutions on the one hand and the policies and operations of the Reserve Bank on the other. In this context, they suggested the establishment of a Standing Advisory Committee on Agricultural Credit. This recommendation has been implemented by the Reserve Bank. A Standing Advisory Committee on Agricultural Credit, consisting of 14 members, was set up in July 1951 for advising the Reserve Bank 'on matters pertaining to its Agricultural Credit Department and subjects allied to those matters'.

Steps for enlarging the framework so far as that could be readily decided upon and carried out

6. We have already referred to the legislative enlargement of the Reserve Bank's role in the sphere of rural credit in various directions. Another very significant development here has been

that the Reserve Bank organized a series of visits by its officers to Part A, Part B and Part C States with a view to aiding the formulation, by the authorities concerned, of plans for the reorganization of the co-operative credit movement in the different States. Such plans have since been drawn up for all States (with the exception of Jammu and Kashmir). In many cases, an essential part of the plan was the creation of a state co-operative bank (through which alone the Reserve Bank can provide finance to the co-operative credit system) in the States where one did not exist before. State co-operative banks have been newly set up, under this programme, in Saurashtra, PEPSU, Rajasthan, Madhya Bharat, Travancore-Cochin, and Himachal Pradesh. In a number of States, state co-operative banks were, of course, already in existence. For some of these, considerable reorganization was recommended by the Reserve Bank, and progress on these lines has been made in various States such as Hyderabad, Mysore, Punjab and West-Bengal.

7. Whether the problem was one of establishing a new apex bank or of reorganizing an existing one, the Reserve Bank has in all suitable cases advised a policy of State partnership including contribution to share capital. In this manner, the total contribution so far made (in a few cases proposed to be made) by State Governments to the share capital of state co-operative banks is a little over Rs 70 lakhs, taking the concerned States together.

8. The plans formulated do not stop with the creation or reorganization of state co-operative banks. Indeed, they broadly cover the entire co-operative credit structure including proposals for the rationalization of central financing agencies and the establishment of a proper network of primary credit societies, since these are basic to the Movement. Plans have also been formulated for the establishment of new central land mortgage banks and reorganization of existing ones. New central land mortgage banks have, within the last few years, been organized in Saurashtra and Hyderabad with State participation in share capital.

9. Obviously, no co-operative development, even if only credit development of the order envisaged, would be possible without organizing efficient training arrangements on an extensive

scale, at all levels, and for a large personnel, existing as well as new, and pertaining to co-operative institutions as well as co-operative departments. Accordingly, at an early stage, the Reserve Bank provided both the finance and the initiative for organizing such training, and in collaboration with the Bombay Provincial Co-operative Institute, organized an all-India training centre for co-operative personnel at Poona. Two courses are provided at the centre. One is a short-term course of six months for training the higher officers of the co-operative departments and the executives of state co-operative banks etc. The other is a long-term course of one year for training officials and non-officials a step lower in the rung of responsibility, i.e., the 'intermediate' staff. Practical training forms an important part of the training scheme and a certain degree of specialization is provided. Later, in this chapter, reference is made to the further expansion of this scheme, as part of a programme in the First Five Year Plan.

10. Another scheme of training, also sponsored by the Reserve Bank and proposed to be largely subsidized by it, relates to the training of the supervisory personnel of commercial banks. The training is intended to be essentially practical in nature. Two experts have been made available from the United Kingdom under the Colombo Plan to help to organize the college which is about to be established in Bombay.¹ A strong committee of commercial bankers has been in charge of the formulation and initial implementation of the scheme.

11. Apart from the initiation of plans for the reorganization of the co-operative credit structure in the various States and for the training of their co-operative personnel, the Reserve Bank, pursuing one of the recommendations of the Informal Conference, has undertaken a scheme of 'voluntary' inspections of co-operative banks, especially of those which borrow from it.

Steps for eventually designing a new and co-ordinated framework in the light of facts to be ascertained

12. While, as noticed in the preceding paragraphs, the functions exercised by the Reserve Bank in regard to the provision of rural finance have been made more effective in certain res-

¹ The college (Bankers Training College) has since been set up.

pects or the framework itself expanded in certain others, there remains the vital question of formulating a long-term plan of rural finance in regard to both policy and organization. It was in this context that the Informal Conference felt that a detailed investigation of the facts on a country-wide basis was a necessary preliminary. This recommendation was accepted by the Reserve Bank. The present All-India Rural Credit Survey, as we have already said in Chapter I, is the outcome.

Action for enabling co-operative banks to extend beyond the town to the village and commercial banks beyond the bigger to the smaller town

13. As regards this item, the Rural Banking Enquiry Committee made detailed suggestions for the provision of better facilities, including cheaper remittance of funds, for banks generally, including co-operative banks. The Reserve Bank accepted these suggestions and, accordingly, with effect from 1 September 1951 the rates of exchange on remittances issued on behalf of commercial banks, co-operative banks and societies and indigenous bankers, from the offices of the Reserve Bank, branches of the Imperial Bank and such treasuries and sub-treasuries as maintain chests of the Issue Department of the Reserve Bank have been reduced.¹ Moreover, scheduled banks and such state co-operative banks as maintain accounts with the Reserve Bank, are now entitled to transfer funds from branches of the Imperial Bank to any account with the Reserve Bank, whether or not they maintain accounts with the Imperial Bank or have offices at places from which remittances are desired. Various steps have also been taken for increasing the facilities available for the conversion and exchange of notes and coin and also for the reform of sub-treasuries and treasuries.

Action in regard to the branch extension of the Imperial Bank and consequent conversion of a larger number of non-banking treasuries into banking treasuries

14. One of the important recommendations of the Rural Banking Enquiry Committee was that banking facilities should

¹ The former rates were :

| | | | |
|----------------|----|----|--------------------------------------|
| Up to Rs 5,000 | .. | .. | at 1/16 per cent (minimum Re 1). |
| Over Rs 5,000 | .. | .. | at 1/32 per cent (minimum Rs 3-2-0). |

These have now been reduced to :

| | | | |
|----------------|----|----|--------------------------------------|
| Up to Rs 5,000 | .. | .. | at 1/32 per cent (minimum Re 1). |
| Over Rs 5,000 | .. | .. | at 1/64 per cent (minimum Re 1-9-0). |

be enlarged through an increase in the number of offices of the Imperial Bank and, consequently, of the currency chests held by that bank on behalf of the Reserve Bank. We shall have occasion in the next chapter to revert to this extremely important subject.

Action in regard to the extension of the Reserve Bank beyond Part A States to Part B States

15. This again is a subject of great importance which will be dealt with in the next chapter. Meanwhile we may note that as many as five of the Part B States, viz., Madhya Bharat, Travancore-Cochin, Hyderabad, Mysore and Saurashtra have appointed the Reserve Bank as their sole banker. The Reserve Bank itself, under its programme of branch extension, has recently opened an office at Bangalore and a section of the Department of Banking Operations at Trivandrum.

The Reserve Bank and rural finance as it figures in the First Five Year Plan

16. We have so far reviewed the action taken by the Reserve Bank in pursuance of the recommendations made by the Rural Banking Enquiry Committee and the Informal Conference on Rural Finance. To complete the account, it is necessary to allude briefly to the Reserve Bank's association with the programme of rural finance in the First Five Year Plan. The targets of that programme were settled in consultation with the Reserve Bank. They relate to the finance which is expected to be made available by Government and the co-operatives together, the latter with the assistance of the Reserve Bank, at the end of 1955-6. The targets are Rs 100 crores per annum for short-term finance, Rs 25 crores per annum for medium-term finance and Rs 5 crores per annum for long-term finance. The Bank is attempting to ensure, so far as this lies in its own sphere of action, that at least an approximation to the targets is achieved by the end of the period of the Plan.

17. Apart from these targets relating to credit, the First Five Year Plan has made provision for a sum of Rs 10 lakhs for subsidizing the organized training of co-operative personnel. Here again, acting conjointly, the Government of India and the

Reserve Bank have set up a Central Committee for Co-operative Training in November 1953. The Committee gets its finance partly from the Reserve Bank and partly from the Government of India, the total at the moment being of the order of Rs 10 lakhs per annum. The Committee is presided over by an eminent non-official co-operator. Starting with the nucleus already built up by the Reserve Bank, it has drawn up a country-wide scheme of co-operative training, which includes the expansion of the all-India course at Poona for higher personnel, the establishment of five regional centres (including the second of the two courses at Poona) for 'intermediate' personnel, and a programme for raising the level of training of the subordinate personnel of the co-operative departments and institutions of different States through a system of conditional subsidies. Several concessions have been decided on and notified to those concerned by the Committee such as free tuition, rent-free lodging and monthly stipends. The big task before the Central Committee for Co-operative Training forms the subject of the recommendations in Chapter 31.

SOME LIMITATIONS

18. We have briefly recounted in the previous paragraphs the more important of the policies followed and steps taken by the Reserve Bank in pursuance of the positive and constructive role it has now adopted in the sphere of rural banking, credit and finance. For a proper perspective, however, it is necessary to mention certain considerations, many of them arising from factors outside the control of the Reserve Bank, which set a limit to the efficacy of any programme of rural credit in which the Bank's policies and measures are not supported and complemented by corresponding policies and organizational effort elsewhere. For instance, without a thorough reform of the operations of the co-operative credit structure and in particular of the primary credit structure, which its policies can only stimulate but not bring about, it would not be possible for the Reserve Bank to ensure that the whole of the credit provided by it is actually transmitted to where it is intended and not diverted in varying degrees to needs other than rural and purposes other than agricultural. Even more difficult is it to ensure,

without such reorganization, that the credit reaches the medium and small cultivator, since for much the larger part he is at present outside Co-operation itself. In respect of the whole structure, apex, central and primary, another major difficulty of the Reserve Bank is that, if that particular canon of prudent banking which relates borrowings to owned funds as a multiple thereof is to be observed, then the total amount by which it is able to supplement other resources is obviously limited to the extent of such owned funds at different levels of the structure. Further, not only in regard to the short-term and medium-term credit structure, but also, and particularly, in regard to land mortgage banks, the difficulty which the Reserve Bank faces is that State Governments are not, in many cases, willing or perhaps even able to make the financial contribution necessary for establishing new institutions, or reorganizing the old, with the full amount of share capital required. In most cases, indeed in practically all, it is unrealistic to expect that co-operative societies and individuals by themselves would be able to contribute more than a small part of the requisite share capital. This, as well as the fact that the Reserve Bank's statute does not, as it stands, enable it to accommodate land mortgage banks otherwise than by the purchase of debentures, greatly restricts its ability to persuade State Governments to help set up such institutions.

We have enumerated several limitations. These, however, only emphasize the urgent need for an integrated scheme in which all agencies of finance can be co-ordinated, and the scheme itself supported by similarly co-ordinated action in other and interrelated spheres of economic activity. Subject to these considerations, the Reserve Bank's recent record, as set out in the previous paragraphs, reveals in our opinion many lines of development of great significance for the formulation of a more comprehensive plan of rural credit, rural banking and rural finance.

RECORD OF THE IMPERIAL BANK, AND OTHER STATE-ASSOCIATED BANKS

It is necessary to deal with the Imperial Bank and other state-associated banks as a separate category for certain very important reasons which arise from the connexion which these banks have had with Government policy, including those aspects of the policies of different Governments which had a bearing on agricultural finance or on the provision of banking facilities in rural areas.

IMPERIAL BANK

2. Before reviewing the Imperial Bank's record in relation to the relevant items, it would be convenient to explain the manner in which the extension of that bank into rural areas would be helpful for the development of banking generally and, in particular, for the provision of remittance facilities for Governments, commercial and co-operative banks and the public. Briefly, the position in India in this respect is very different from that in countries such as the U.K. and U.S.A. where the banking system itself provides the machinery for the transmission of funds from one centre to another, whether rural or urban, with the minimum of cost. In India, as we have noticed, commercial banks cluster around certain important trading and other centres. Nevertheless, there is one institution at least, viz., Government, both State and Central, which requires frequent transmission of funds from place to place, all over the country, to meet obligations to pay cash. In the absence of banks, a great deal of physical transfer of funds from place to place will be required. And owing to factors such as the relatively large payments to be made at certain times, e.g., at the beginning of each month when salaries have to be paid, the locking up of large cash balances in the treasuries and sub-treasuries at district and taluka headquarters would be necessary. This aspect may be strikingly illustrated by citing the instance of Mysore where, as

on 1 June 1950, in the absence of arrangements corresponding to those in Part A States, the total amount of cash maintained in 91 treasuries and sub-treasuries amounted to Rs 1.91 crores as contrasted with Rs 3.81 crores in the 'treasury' balances of Government maintained in all the non-banking treasuries and all the non-banking sub-treasuries of Part A and Part C States taken together (approximately 1,150 in number). How does it happen that Part A and Part C States are able to manage with much less cash in their treasuries and sub-treasuries? The explanation lies in the currency chests of the Reserve Bank which are established in Government treasuries and sub-treasuries, but which, wherever there is a branch of the Imperial Bank at the same place as the Government treasury or sub-treasury, are established in the branch of that bank. The latter is made possible because the Imperial Bank is the agent of the Reserve Bank in Part A and Part C States at every place at which the Imperial Bank, but not the Reserve Bank, happens to have a branch. (The Reserve Bank's branches are confined to relatively few places.)

We may now examine what happens at a non-banking treasury, i.e., the treasury which conducts cash operations (in addition to the maintenance of accounts) because of the absence of a branch of the Imperial Bank. The currency chest in such a treasury (like a currency chest with the Imperial Bank) is the property of the Reserve Bank and is placed in the possession of the treasury or sub-treasury officer concerned, as an official of the State Government which itself, in this matter, stands in a fiduciary relation to the Reserve Bank which has entrusted it with the currency chest. As a result of this arrangement, the treasury or sub-treasury need keep no more than a very small treasury balance in the form of cash. Whenever the payments made by the treasury or sub-treasury on a particular day exceed the limit of the treasury balance, the officer concerned takes notes from the currency chest and utilizes them. Correspondingly, he places the excess receipts in the currency chest. In other words, what amounts to a banking transaction between the Government and the Reserve Bank, the latter represented by the currency chest, takes place in the treasury; and this transaction may be either a withdrawal from the Bank as in the first case or a deposit in the Bank as in the second case. This is

possible because the State Government keeps the entirety of its accounts with the Reserve Bank which is its sole banker. These accounts relate to different places all over the State. Sometimes they represent transactions between one State Government and another State Government or between the State Government and the Central Government. All these transactions are eventually adjusted in the Central Accounts Section of the Reserve Bank at Calcutta. Daily advices are given as to the transactions, whether these be 'plus' or 'minus', between the State Government and the Reserve Bank, the latter as represented by its currency chest in each treasury or sub-treasury, and the balance as a whole is struck and the necessary adjustment made.

This, however, is only a part of the picture. Wherever there is a branch of the Imperial Bank, it is this bank which conducts the operations just described. It does so on behalf of the Reserve Bank on the one hand and of the State Government on the other. These transactions again, whether plus or minus, pass through a parallel line of adjustment leading up to the Central Accounts Section at Calcutta and are there co-ordinated with the set of transactions relating to the non-banking treasuries and sub-treasuries of the Government concerned, i.e., treasuries and sub-treasuries at which the cash work is managed by the Government itself and not by the Imperial Bank. In this manner, it is possible to counteract to some extent the great inconvenience caused by the absence of a widespread network of banking in this country. It should be noted in this context that the existence of currency chests is a great advantage to the Imperial Bank in regard to its own banking transactions. For, the same difficulties as present themselves to State Governments in the matter of remittance also confront the Imperial Bank. By an arrangement which, in essentials, is the same as that pertaining to the State Governments, the Imperial Bank is enabled to keep at its branches cash balances of a very small order. The advantage, however, is not confined to the Imperial Bank because wherever commercial banks have branches at the same places as the Imperial Bank, they make use of the Imperial Bank extensively for the remittance, inward and outward, of their own funds; and this arrangement enables the Imperial Bank to charge the commercial banks much less for this facility than it would otherwise have to. This is not possible

to anything like the same extent when the currency chest is operated by a Government and not a bank.

The significance of the Imperial Bank in respect of remittance of money from place to place—and therefore in relation to the possibility of cheap transfer as required of the funds of commercial and co-operative banks—should now be obvious; and this is the key to the importance attached to a programme of extension to rural areas of the Imperial Bank. Attention had been paid to this aspect at the very inception of the Imperial Bank itself. When the three Presidency Banks were amalgamated by statute in 1921, one of the cardinal points of justification stressed by the then Finance Member was the almost unlimited importance and potentialities of the new institution from the point of view of the banking development of the country as a whole. A programme of opening a number of new branches was enjoined on the Imperial Bank by Government.

3. It may be recalled at this stage that, before the establishment of the Reserve Bank, the Imperial Bank had in effect been discharging certain central banking functions such as undertaking the general banking business of Government and the management of the Public Debt. The picture changed when the Reserve Bank was established in 1935. We may ask ourselves whether the Imperial Bank can legitimately argue, if it is so minded, that it is a commercial bank, pure and simple, and that the entrustment to it of the cash work of Government is a matter of specific agreement between itself and the Reserve Bank. It is necessary for our purpose to emphasize here some of the points brought out in the Report of the Rural Banking Enquiry Committee. The reasons why the Imperial Bank cannot be allowed to regard itself as a commercial bank which for purely adventitious reasons has entered into an agreement with the Reserve Bank (or with Government in the past) fall under two categories: (1) those connected with public need and interest, and (2) those connected with the advantages gained and consolidated and others still enjoyed by the Imperial Bank.

Confining attention, so far as the first consideration is concerned, to the question of remittance facilities, it is clear that so important a matter cannot be left to an *ad hoc* agency. If there were no Imperial Bank, it would have been necessary to create

one. As regards the second set of considerations, reference may be made to the background of Government sponsorship and connexion against which the bank came into being and has since grown up to its present stature.

4. In this context the Rural Banking Enquiry Committee suggested the assumption of a larger degree of control over the Imperial Bank. It is extremely pertinent to notice that, irrespective of this question of control, the Reserve Bank as well as the Imperial Bank have, after the Rural Banking Enquiry Committee had made its recommendations, been actively pursuing the question of branch extension of the Imperial Bank. The initial two year expansion programme of the Imperial Bank which ended on 30 June 1953 is now being followed by a three year programme beginning from 1 July 1953. Taking into account the 34 branches already opened during the initial two year period ended on 30 June 1953, the total number of new branches which the Imperial Bank will have opened, according to the programme, will be 114 at the end of five years commencing from 1 July 1951. This is not even half that recommended by the Rural Banking Enquiry Committee which had indicated a target of 274 new centres for the corresponding period. With all its limitations, however, the programme is one of the most significant features of the recent record of the Imperial Bank in its relation to rural banking.

OTHER STATE-ASSOCIATED BANKS

5. It is now necessary to take up the story in relation to the other state-associated banks and consider their connexion with the conduct of the cash work of the treasuries of the State Governments concerned and, following from this, the significance of these banks for a scheme in which the extension of banking treasuries (as distinguished from non-banking treasuries) becomes a factor more important than any other for the expansion of rural banking.¹ Some of the recommendations of the Rural Banking Enquiry Committee are here relevant.

¹ These state-associated banks are: the State Bank of Saurashtra, the Bank of Patiala, the Bank of Bikaner, the Bank of Jaipur, the Bank of Rajasthan, the Bank of Indore, the Bank of Baroda, the Bank of Mysore, the Hyderabad State Bank and the Travancore Bank.

Before coming to the conclusion that, so far as Part A and Part C States were concerned, the Imperial Bank should continue to conduct the cash work of the treasuries of Government the Committee had examined various alternatives that had been put forward such as the division of the cash work between the Imperial Bank and various other commercial banks. It was against this background that the Committee viewed the problem in so far as it concerned Part B States. It felt that the question of the eventual entrustment of cash work to state-associated banks in these States might be left open for the time being and be reviewed after a period of five years, the only exception to this being Hyderabad, where owing to certain special considerations, the Hyderabad State Bank might continue to be entrusted with the cash work of Government treasuries. At the same time, the Committee made a very definite recommendation that the Governments of all the Part B States should appoint the Reserve Bank as their sole banker.

6. In the further pursuit of these proposals, the Reserve Bank made much more detailed enquiries than it had been possible for the Rural Banking Enquiry Committee to conduct, and formulated lines of action which were in advance of the recommendations made by the Committee. The Reserve Bank found that in practically all the Part B States, the affording of many of the 'banking' facilities enjoyed by the State Governments and, in varying degrees, the conduct of cash work of the treasuries of the State Governments, were already among the existing functions of the 'State' banks in question. If, then, the Reserve Bank was appointed the sole banker to the Governments of Part B States while not recognizing the 'State' bank as its agent, the position would be that the Reserve Bank would have to ask the State Governments concerned to establish its currency chests in Government treasuries; and this in some cases would involve a transfer of cash work from the 'State' banks to Government itself, a process which, obviously, would be the reverse of that envisaged, on very valid considerations, for Part A States. Confronted with this problem, the Reserve Bank set about evolving a formula of control over the 'State' banks which might enable it to appoint the 'State' banks concerned as its agents either simultaneously with, or after a time lag from, the

appointment of the Reserve Bank itself as the banker of the State Government.

7. This formula has been successfully applied in practice. The Hyderabad State Bank and the Bank of Mysore have, in their respective States, been appointed agents of the Reserve Bank with effect from 1 April and 1 November 1953, after acceptance by them of the scheme of control. In Travancore-Cochin and Saurashtra, where the Reserve Bank has been made banker to the State Governments, no agent of the Reserve Bank has so far been appointed; in both the cases, however, the State Governments have agreed that the appointment of the 'State' banks concerned as agents of the Reserve Bank would be subject to the adoption of the scheme of control.

It will be noticed that in Hyderabad and Mysore both the requisites have been fulfilled, viz., the appointment of the Reserve Bank as banker to the State Government and the appointment of the 'State' bank as the agent of the Reserve Bank. In Travancore-Cochin, the first requisite has been fulfilled. It is expected that the second will also be fulfilled after the lapse of three years from the execution of the Agreement between the State Government and the Reserve Bank. In Madhya Bharat too, the first requisite has been fulfilled; the second has not been fulfilled because the branches of the Bank of Indore cover only a very small part of the State. In Saurashtra, where the State Government has appointed the Reserve Bank as its banker, a legal difficulty stands in the way of the State Bank of Saurashtra being appointed as the agent of the Reserve Bank. In Rajasthan, the difficulty has been that as many as three banks, viz., the Bank of Bikaner, the Bank of Jaipur and the Bank of Rajasthan, have been conducting the cash work of the State Government. The Reserve Bank has insisted that the amalgamation of these three banks is a condition precedent to the appointment of an agent in the State. But one of the three banks is unwilling to consider amalgamation with the other two. Finally, PEPSU shares with Rajasthan the position that neither of the requisites is fulfilled. In this case the difficulty has been the attitude of the State Government itself which has hitherto taken the stand that it is not of advantage to it to appoint the Reserve Bank as its 'sole' banker.

PRESENT POSITION

8. The account we have given reveals that a great many steps towards integration have been taken during the last two or three years by the Reserve Bank. The difficulties which have stood in the way of the completion of this process are partly legal, partly arising from the attitudes of individual banks and partly a consequence of the attitudes of individual State Governments. In the establishment of currency chests in Part B States, there has also been an appreciable degree of progress, but here the Reserve Bank has been faced with two serious limitations. One of these limitations is that the relatively small size of the banks concerned, wherever they are appointed as agents, necessarily implies the need for a certain amount of caution by the Reserve Bank in regard to the pace at which new currency chests can be established. Where the Reserve Bank has not yet been able to appoint an agent bank to operate for it in the Part B State concerned—as in Saurashtra and Travancore-Cochin—even this limited number of currency chests has to be entrusted to Government treasuries; this is the second serious limitation on the programme set before itself by the Reserve Bank, since Government treasuries in possession of currency chests—in other words, non-banking treasuries—are clearly far less effective than banking treasuries for the provision of rural banking facilities. All this has meant a much slower pace of expansion of remittance facilities than would have been possible in other circumstances.

SUMMING UP OF THE PRIVATE CREDIT AGENCIES

THE records of the different agencies of rural credit have been examined in Chapters 9-17. As a preliminary to the formulation of an integrated solution, it is proposed in this chapter to consider briefly the significance of the private credit agencies in the light of the requirements of such a solution.

COMMERCIAL BANK

2. It has been seen that the advances of commercial banks for the production of agricultural commodities constitute less than 4 per cent of their total advances. Nor are commercial banks of any significance as lenders to co-operative banks or co-operative marketing societies. If commercial banks are interested in rural areas it is more for the purpose of getting deposits from those areas through branches and mobile banks than for financing either agriculture or cottage industry. This is entirely understandable because the commercial bank, not only in India but in most other countries, is not designed for channelling finance to the cultivator. But, while commercial banks have little or no significance for agricultural production, they may, if suitable conditions are created, acquire considerably greater importance than at present for agricultural marketing. It would seem that it is in these directions, rather than on the basis of a more direct relationship between commercial banks and rural credit, that future policies would have to be formulated in so far as they are concerned with these institutions.

TRADER

3. The significance of wholesale and retail traders may be briefly disposed of. Backed as both these are by the powerful institutions of commercial and indigenous banking, they constitute as we have said, a formidable rival to co-operative marketing.

The wholesale trade might be invested with some importance in this context if it could be directly linked to a well-organized structure of co-operative marketing. In so far as the retail trader or the agent of the wholesale trade is in direct contact with the cultivator, we have seen that the finance provided by him constitutes, on an average, about a twentieth of the total borrowings of cultivators. But much of this financing is really in the nature of advance payment for produce purchased.

INDIGENOUS BANKER

4. The indigenous banker, like the commercial bank which in many parts of the country is replacing him, is a financier of trade; he is also often a trader himself; further, he finances moneylenders. That this mixed agency of trade and credit still serves a residual number of more or less useful purposes in certain parts of the country may well be true; but what is not true is that the indigenous banker thereby becomes entitled to be considered seriously as an appropriate instrument of rural credit. A claim of this sort has been made from time to time by associations of indigenous bankers with a view to obtaining facilities of re-discount and re-finance from the Reserve Bank of India. The resultant negotiations between the indigenous banker and the Reserve Bank have been going on intermittently for the last fifteen years. As these negotiations have not been entirely dictated by the context of rural credit, it is not for us to say whether, as a general proposition, they should or should not be pursued, and, if pursued, on what modified lines it may be fruitful to resume them. So far as agricultural credit is concerned, however, we are definitely of the view that there would be more danger than benefit to the cultivator if the indigenous banker is constituted, as suggested by him, a part of a chain of credit extending from the Reserve Bank at one end to the cultivator at the other, with the indigenous banker and the town and village moneylenders as the intermediate links.

MONEYLENDER

5. As in the case of the indigenous banker, so in that of the moneylender, the suggestion is sometimes put forward that

means should be found of associating him effectively with any institutional arrangements that may be devised for the supply of rural credit. The size of the moneylender's participation in agricultural finance is undoubted. Nevertheless, it is a mistake to imagine that that size is a measure of the place he must occupy in a realistic solution or, conversely, of the peril at which he may be ignored in any such solution. Rather, it is an index to the size of the effort that will be needed on the part of the State to rectify a chronic maladjustment which is to the disadvantage of rural India.

REMAINING AGENCIES

6. There remain to be considered in the context of the formulation of solution, the Reserve Bank, the state-associated banks, the co-operative agency and finally the Governments themselves, Central and State. The underlying assumption of the discussion will be that which we have postulated in Chapter 8, viz., that the reorganization of agricultural credit in India must be based on some form of co-operative association of cultivators within the village itself. Notwithstanding the unsatisfactory record of co-operative credit, which we have already discussed, we believe that the co-operative system can, if the right conditions are created, work successfully in this country. The manner in which effort and organization can be directed to this end is considered in the ensuing chapters.

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FORMULATION OF SOLUTION (I): DEVELOPMENT OF CO-OPERATIVE CREDIT ,

WE may now attempt to correlate the more important aspects of the problem of rural credit with the more promising features of the agencies available. Three general questions arise:

1. What are the priorities to be assigned to different aspects of the problem and, consequently, what are the more important items to be kept in mind in designing a scheme for meeting those requirements?
2. Which of the existing agencies, and with what modifications if any, may properly be fitted into such a scheme?
3. What new devices of organization will be needed for meeting those important aspects of the problem for which it may not be possible to find solutions in any other manner?

CO-OPERATIVE CREDIT

2. Let us first consider the priorities of the problem. One basic consideration has already been emphasized: there is eventually no effective alternative to a co-operative form of institution, at any rate at the village level and for dealing direct with the cultivator. In that sense, the main requirement is to make the co-operative credit organization in its primary form a much more effective institution than it is at present. Such a development of co-operative credit cannot, it is obvious, be achieved all at once if we bear in mind the weaknesses which it displays today. The prior requirement, so far as credit by itself is concerned, is the strengthening of the upper levels of the structure, i.e., those above the primary society, by such measures of State participation, and for so long, as necessary, in order that a powerful

helping hand may be held out, capable of guarding the primary structure against the dangers and weaknesses inherent in the present functioning of the co-operative credit system as a whole.

STATE GOVERNMENTS AND RESERVE BANK

3. It is clear that the co-operative movement will not be in a position by itself to effect a reform so radical as that implicit in the development envisaged. To our mind it is obvious that the most significant potentialities in this respect are to be found in the record of the Reserve Bank in recent years in its relations with the co-operative movement. The Bank agreed to make finance available even during the interim stages preceding full implementation of programmes of reorganization, provided only the State Governments firmly endorsed these programmes and, at the same time, guaranteed to the Reserve Bank the repayment of the loans given to co-operatives. This went a long way towards the success of the process of implementation itself. In this constructive combination of policy and effort between the Reserve Bank and the State Governments we see one of the most important ways in which a much larger programme of development can be undertaken.

LOANS TO STATE GOVERNMENTS

4. Let us now examine the factors which are either beyond the control of the Reserve Bank or which impede a much fuller programme of reorganization. To take the apex structure first, while the Reserve Bank can, if certain conditions are satisfied, make short-term accommodation available in much larger quantities than the state co-operative banks can at present obtain, it cannot, under its present constitution, assist the State Governments by lending them the amounts with which they might participate in the share capital of their state co-operative banks. In a much larger expansion of credit activity, it is clear that unless the share capital of the state co-operative banks, as also of the central banks, is greatly increased, no large-scale strengthening and expansion of the structure at this level is possible. One line of solution, therefore, is that of enabling the

Reserve Bank to make loans to the State Governments for the purpose of their participating in the share capital of state co-operative banks and through them, in the share capital of the central banks. In the sphere of long-term credit also, if the Reserve Bank could be put in possession of funds and statutorily enabled to lend to State Governments for participation in the share capital of land mortgage banks, the promotion of these banks on a much larger scale would be made possible. Further, once the institutions are established, the Reserve Bank should be in a position to give much larger credit accommodation than it is able to do at present. So far as short-term credit is concerned, no substantial changes would seem necessary in the statute governing the Bank; for one thing, the proposed increase in the share capital of state co-operative banks, central banks and societies, can well result, even under the existing arrangements, in much larger short-term borrowing than at present from the Reserve Bank. But in regard to medium-term credit and long-term credit it is obvious that the Reserve Bank of India Act should be amended so as to make it possible for the Bank to be of much greater assistance than at present through the medium of the reorganized co-operative credit structure.

STABILIZATION

5. There are other and important aspects to be considered. One needed direction of action is that of making suitable arrangements for the stabilization of co-operative credit institutions in those temporary contingencies which arise as a result of famine, drought, etc. An important form of assistance in this context would be for the Reserve Bank (and also state co-operative banks etc.) to build up a fund which can, on stated conditions, be drawn upon for the benefit of the co-operative institutions in emergencies such as those we have mentioned. The Reserve Bank's financial responsibilities in this context should not go beyond the extension of the period of accommodation. For example, the responsibility of affording outright relief, which will have to be institutionally provided for, will have to vest in the Government of India. Hence, another way of strengthening the co-operative structure would be to

institute a suitable fund for this purpose in the Ministry of Food and Agriculture of the Government of India.

TRAINING AND ORGANIZATION

6. There is another important line of prospective solution with which the Reserve Bank as well as the Ministry of Food and Agriculture are now intimately connected, viz., the provision of training facilities. This has been provided through the Central Committee for Co-operative Training to which we have referred elsewhere. The programme of this Committee should obviously be drawn up and implemented in intimate co-ordination with the credit development programmes of the Bank itself. Since a programme of this kind will impose on the Bank very much greater executive and supervisory responsibilities than at present, considerable strengthening and reorganization of its own relevant departments will be necessary.

CHIT FUND ETC.

7. All the steps we have tentatively formulated so far group themselves around two lines of policy, one directed towards the strengthening of the co-operative credit structure from the top right down to the district and sub-district levels, and the other towards evolving a strong and stable primary credit structure, deriving strength from the upper levels. This, however, leaves out two important items. One of them relates to credit for purposes other than production. It is inherent in the solution we contemplate that co-operative credit should be essentially of the nature of productive finance, including in that term such subsistence finance as is required by the producer for maintenance of his family until the harvest comes in. It is for credit required for expenditure that cannot be classed as productive, in this enlarged sense, that we have to think of other lines of action co-ordinated with what we have already formulated. The Survey data show that considerable borrowing takes place for marriages and other ceremonies; an appreciable amount of borrowing also takes place for construction and repairs of residential houses.

8. One way of tackling the problem might be to introduce within the organization of the primary society distinct arrangements for the admission of nominal members for purposes other than productive credit and to constitute all such members and the normal members into what might be called a system of ' *Sahaya* (or Mutual Help) Chit Funds '. We would suggest the following as an attempt at solution :

1. The primary society will be the stakeholder of the chit fund.
2. A particular amount, or graded amounts, will be prescribed by the society as periodical (e.g., monthly) subscription.
3. Membership of the chit fund — as distinguished from membership of the primary credit society — will be open to all villagers acceptable to the society: cultivators as well as non-cultivators, producers as well as labourers. Those admitted will be ' nominal ' members of the society.
4. One-third of the periodical subscriptions will be treated as fixed interest-bearing deposits placed with the society which can be withdrawn after a prescribed period. This part of the contribution will not be included in the chit fund and will not figure in disbursements.
5. Another third will be earmarked towards a ' needs fund ', the need being one of a specified category such as marriage or death in the family or a costly illness. Even where the ' needs fund ' is sufficiently large, the loans from it for marriages, funerals, etc., should be limited to what is reasonable, as distinguished from what in usual practice is extravagant.
6. The last third of the amount collected by subscriptions would be disbursed by lots.
7. The scheme should at the start be introduced only in promising areas after details have been thoroughly worked out. It should ordinarily be introduced only in the areas of the more efficient and larger-sized primary societies. But, when introduced, it may be necessary to ban by legislation certain specified types of chit funds in the area, especially those likely to compete with the society's own chit fund.

9. The other important aspect in which credit activities at the village level have to be co-ordinated with the system we have proposed for the higher levels of the credit structure is that of the productive needs of the non-agricultural classes such as the village handicraftsman, the worker in small industries and the cultivator who takes up a cottage industry in his spare time. The broad line of solution which seems most appropriate is eventually to channel such credit too through the co-operative credit structure. Naturally, in this matter, the risk of the particular cottage industry should not fall on the society itself; adequate guarantees may, therefore, be necessary. Also, the entire system will have to be co-ordinated with marketing arrangements. The All-India Handloom Board, the All-India Khadi and Village Industries Board, etc., will have to be considered in this context, and the question examined of the co-ordination of their functions and financial operations with those of state financial corporations, industrial co-operative societies and co-operative banks, and finally the Reserve Bank itself, in so far as a recent amendment of the Reserve Bank of India Act now makes it possible for the Bank to give short-term accommodation to specified cottage industries on stated conditions.

FORMULATION OF SOLUTION (II) : DEVELOPMENT OF STORAGE AND WAREHOUSING AND CO-OPERATIVE ECONOMIC ACTIVITY INCLUDING PROCESSING AND MARKETING

IN the previous chapter, we dealt with certain features of the problem which are more or less intimately connected with credit. We propose to devote this chapter to a very brief consideration of the more important of those measures which arise from rural economic activity as a whole, of which credit is only an aspect and a reflection.

STORAGE

2. We may first consider storage. Sometimes, but to an insignificant extent, it is co-operatively organized. The most promising developments in this direction have taken place where the State Government concerned has given subsidies and loans to societies, occasionally to marketing societies, for constructing and running co-operative godowns. War-time conditions gave a fillip to this activity when, as in Madras and Bombay, the State Governments displayed positive interest in helping co-operatives to provide themselves with storage in order that they in turn might assist the State in the distribution of foodgrains and sometimes their procurement. But neither in these States nor in the country as a whole has the development of organized storage, co-operative or other, been appreciable. The most important reason for this lack of progress, in spite of a large mass of legislation in regard to warehousing, has been the fact that no specific body or institution has displayed real interest in storage and warehousing. This has been partly due to the fact that the cost of constructing godowns and warehouses is, in present conditions, often high in comparison with the return which may be expected on them, especially during the initial years.

It follows that, without an element of subsidy on the one hand and a strong and sufficiently widespread organization on the other for carrying out a definite programme, there is little hope of making an impression on the problem. There are, of course, other and grave difficulties besides that of cost and return; some of them are connected with the grading of agricultural commodities and the existence of well-trained personnel. The effort called for in the solution of the problem has to be both concerted and country-wide. For effective action, the broad set-up would seem to have to be on the following lines:

1. A planning and financing body at the Centre, for example, under the Ministry of Food and Agriculture, which would plan a whole system of storage and warehousing and be able to subsidize and finance. At the same time, it would be connected with different co-ordinated agencies which would carry out the programme.
2. The agencies themselves may be divided into: (1) an all-India organization for development of storage and warehousing at points of all-India importance; (2) State organizations concerned with points of State or district importance; and (3) co-operative organizations at the taluka and village levels.

At the intermediate level, the State Government would have definitely to come in; but, at the all-India level, we envisage the funds as deriving, not only from the Central Government, but also from various banking, insurance and other financial institutions. Our general lines of solution in this matter would, therefore, be the establishment of (1) a national board which plans and finances; (2) an all-India corporation with share capital from the Central Government and from various institutions; (3) state warehousing companies in which the State Governments on the one hand and the corporation on the other participate; and (4) the co-operative societies at the base of the programme.

PROCESSING AND MARKETING

3. In regard to processing and marketing also, as in the sphere of storage and warehousing, effective State participation alone can bring about the necessary development. Here again, the

partnership of the State will involve the provision by it of financial, technical and administrative assistance. It is, therefore, necessary to examine how best a programme of this kind can be devised. It may be noted that we are proceeding on the assumption, which seems very valid, that as regards planned co-ordination and financial provision at the all-India level, the broad division of functions is that the Reserve Bank should look after the credit programme and the Government of India after the other parts of the economic programme, the main responsibility in either case resting with the State Governments. It follows from this that, in conjunction with the State Governments, the Ministry of Food and Agriculture should be associated with the development of co-operative processing and co-operative marketing on a nation-wide scale. In other words, the Ministry would have to be institutionally linked with this part of the programme no less than with the one concerned with the development of storage and warehousing. For the latter, we have mentioned a national board as providing the link. We envisage the board as equally serving the purpose of an all-India planning, financing and co-ordinating body in the context of the development, by State Governments, of co-operative marketing, co-operative processing and other co-operative economic activity. An appropriate designation for this body would, therefore, be the National Co-operative Development and Warehousing Board.

OTHER ASPECTS

4. A full list of economic activities to be reorganized on a co-operative basis would include — besides processing and marketing — many others such as consolidation of holdings, farming, irrigation, livestock-breeding, dairying and fisheries. The development of these and similar activities, by provision of finance and technical services, and by proper administration, will be one of the two main objects of the National Co-operative Development and Warehousing Board.

STATE PARTNERSHIP

5. In regard to the extent of State partnership in societies engaged in different forms of economic activity (as in those pro-

viding credit) we would stress the great importance of making the structure from the sub-divisional and district levels upwards as strong as possible, because it is only through the provision of adequate initial strength at these higher levels that the development of the structure at the village level is best assured. The provision by the State of technical assistance to such societies will also be of the utmost importance.

FORMULATION OF SOLUTION (III): DEVELOPMENT OF RURAL AND CO- OPERATIVE BANKING FACILITIES

WE now turn to one of the most insistent needs of the rural areas, namely 'cash' or 'liquid resources'. The ready availability of such resources, partly through cheaper and prompter arrangements for remittance of money, is perhaps the most essential preliminary to the better and larger availability of banking, especially co-operative banking. This requirement and its prospects of fulfilment happen to be related most intimately with the Imperial Bank and the other state-associated banks.

CASE FOR INTEGRATION

2. The branches of the banks in question including those of the Imperial Bank are broadly complementary to one another and together provide a network which covers the whole of India. If we should succeed in devising some process by which these banks could be integrated into one institution, and if that one institution could be effectively aligned to national policies, then indeed this would be an extremely important and extremely desirable line of development. To some of these banks at least, the process of integration has not been unknown in the past. The Imperial Bank itself was constituted by the amalgamation of the three Presidency Banks. The State Bank of Saurashtra was formed by the amalgamation of the different banks of the original unit-States.

3. What the integration will imply by way of the total number of branches, pay offices, etc., which will be brought together and operated under one institution, as also of the total resources which will become available, may be seen from the following data which generally relate to 31 December 1953:

1. The total number of branches, pay offices, etc., of the Imperial Bank and the ten state-associated banks comes to 773 out of which 422 relate to the Imperial Bank.

2. The total assets of the state-associated banks, other than the Imperial Bank, as represented by paid-up share capital and reserves, is about Rs 10 crores. Of these Rs 10 crores, some of the State Governments together own about Rs 4 crores. For the Imperial Bank, the total of paid-up share capital and reserves is about Rs 12 crores, of which somewhat less than half is paid-up share capital and somewhat more than half represents reserves.
3. The aggregate of the deposits of all these banks is about Rs 306 crores. Out of this, somewhat less than a third pertains to the state-associated banks other than the Imperial Bank and somewhat more than two-thirds to the Imperial Bank.
4. These figures of branches and resources by no means complete the picture of advantage. There is, for example, the important question of the extension of remittance facilities. On this subject, we have pointed out that, much as has been the progress achieved through the efforts of the Reserve Bank, the difficulties too have been great and the limitations many. For example, some of the state-associated banks, taken individually, are not strong enough yet to be entrusted with other than a limited number of currency chests. Quite understandably, therefore, the Reserve Bank and the Government of India have felt the need for caution and review at every stage before further progress is attempted. This set of difficulties will disappear as soon as we have, instead of a number of relatively small state-associated banks and a relatively big Imperial Bank, one strong country-wide institution which can without hesitation be entrusted with as vigorous a programme of the opening of new currency chests as may be administratively feasible. An integrated institution will also provide, on an average, more branches per unit of area in the enlarged jurisdiction than does the Imperial Bank today, in its own jurisdiction. Consequently there are proportionately larger possibilities of increasing the number of currency chests and the volume of remittance facilities.

EXTENSION TO RURAL AREAS

5. But even this is not the whole picture so far as it is concerned with future potentialities. Any expansion of remittance

facilities, of which the essence is the taking over by a state-associated bank of currency chests now managed by State Governments, cannot be said to be really effective unless it goes not only to, but beyond, the district headquarters. The following table will show the big gaps to be filled even at the higher of these levels:

| Category of State | Total number of district headquarters including headquarters of States | Number of district headquarters, including headquarters of States, where there is no branch of either the Imperial Bank or other state-associated banks |
|---------------------|--|---|
| Part A States | 195 | 74 |
| Part B States | 84 | 15 |
| Part C States | 22 | 16 |
| Total .. | 301 | 105 |

It will be seen that, even if we take only Part A and Part C States, as many as 90 district headquarter places, out of a total of 217, are each without a branch of the Imperial Bank or one of the other state-associated banks. The position is substantially better in Part B States, where the number of district headquarters without branches is 15 out of a total of 84. If we now consider the sub-treasury centres where there are no branches of either the Imperial Bank or one of the other state-associated banks, the figures are truly staggering:

| Category of State | Number of sub-treasury centres where there is no branch of either the Imperial Bank or other state-associated banks |
|---------------------|---|
| Part A States | 940 |
| Part B States | 516 |
| Part C States | 74 |
| Total .. | 1,530 |

It would be quite impracticable in any foreseeable time to have a branch of one of these banks at each of these sub-treasury centres (there is usually one sub-treasury for each taluka). Let us, therefore, suppose, on a very rough basis and on an average for the whole of India, that five contiguous talukas, and therefore five sub-treasuries which are not far distant from one another, may together be regarded as constituting a 'sub-divisional' unit for the present purposes rather than in the strict administrative sense. Let us further assume, as seems reasonable, that this sub-divisional unit is the minimum that can be contemplated for the establishment, at a suitable sub-divisional centre, of a '*banking* sub-divisional treasury' to serve the whole area of the unit, and, therefore, also to furnish the remaining four non-banking treasuries with the much greater remittance and other facilities, including frequent physical transfer of funds, which the currency chest in possession of a relatively nearby branch of a bank, as distinguished from that of Government and its treasury, can certainly help to provide. Even so, the number of sub-divisional centres to which branch extension of the Imperial Bank and other state-associated banks has to take place will be more than 300. These will be in addition to the 105 district headquarter centres, already mentioned, to which such extension has to take place. In the aggregate, therefore, there will still be more than 400 centres in all where branches will have to be established, if minimum remittance and banking facilities are to be effectively provided for the rural sector of India within a period of time that is neither impracticably short nor so unduly long as to imply the avoidable continuance of a set of conditions which is extremely damaging to the rural areas. The suggested integration of the Imperial Bank and the state-associated banks not only has the fullest justification from the point of view of rural (including co-operative) credit, banking, and finance, but is also one of the three or four most indispensable elements in the composite solution we are formulating.

STATE PARTNERSHIP

6. But, at this stage, an important difficulty arises. Obviously, it would be improper for the State, by legislative compulsion,

to bring about such expansion entirely or even largely at the institution's own cost. Secondly, there is the point that such an expansion will mean a great deal of capital outlay. Hence there arise two important considerations, viz., (1) that it is desirable that the State should become a partner in the amalgamated institution and provide the necessary additional capital and (2) that, to the extent reasonably necessary, the State should subsidize the losses incurred on such part of the branch extension as happens to be initially uneconomic. The concrete suggestion would, therefore, be that the State—i.e., the Central Government and the Reserve Bank—should together put in the additional share capital necessary; and that, from the dividend on that share capital, they should meet the losses (above a prescribed level) incurred by the integrated institution on the programme of expansion. The extent of State participation necessary will, in actual fact, be found to be quite large; we definitely envisage its being not less than 51 per cent. Our recommendations in respect of the reorganization thus necessitated are given in Chapter 26 on the 'State Bank of India', which is the name we would propose for the integrated institution.

FORMULATION OF SOLUTION, (IV) : OBJECTIONS AND ALTERNATIVES EXAMINED

IT is of the essence of the measures formulated in the last three chapters that they deal with a problem which is conceived as one of development rather than of reorganization. The development envisaged is that of co-operative credit, of co-operative processing and marketing, along with storage and warehousing, and of co-operative banking facilities. In none of these spheres does the main task seem to us to be one of mere reorganization of existing institutions ready at hand and more or less adequate, or even of the establishment of one or more new organizations at the all-India or State levels which may then be expected to look after the job without causing too much trouble to too many people. A simple and relatively comfortable solution can hardly be expected, or appropriately offered, if we are anywhere near correct in our reading of the problem as something which goes deep down into the socio-economic structure of rural India and is intimately related to the maladjustment of that structure with the country's economy, administration and institutional development as a whole. The solution must, therefore, take into account many types of existing institutions and many aspects of governmental working and policies. Only the most determined effort on a country-wide basis and at all levels can, in course of time and by an arduous process of change and modification, bring about those minimum conditions in which the residual elements of the problem will begin to assume a more normal aspect. Such an aspect, which is today wholly unrelated to Indian conditions, is nevertheless apt to be misread into them—not only by foreigners, for that is readily understandable—but also by such of those in this country who have derived their ideas on rural credit from a study of the literature pertaining to its organization and operations in the more developed countries of the West. It will be recalled that in Chapter 7 we referred to

the 'school of imported remedies' which would solve the Indian problem of rural credit by adoption of foreign devices such as Supervised Credit from Latin America, Farmers' Home Administration from the United States, Pawnshops from Indonesia and so forth. With state-sponsored and supervised credit we deal in the chapter containing our recommendations on the 'Role of Government and Government Finance' (Chapter 32). It will suffice to say here that no form of organization which seeks to deal with every single one of the millions of Indian cultivators, in an attempt to reconstruct the farm business of each on a more satisfactory basis, is likely to meet with even the remotest success in this country or have the slightest relationship to the realities of its financial and administrative resources. The need to approach the cultivator on the basis of a co-operative organization in the village itself is fundamental. There is no workable alternative to this fundamental requirement in any solution that may be conceived. Since a co-operative organization of the needed type is non-existent in most villages in India, the main task becomes one of developing it. Very often the remedies which are sought to be imported have either not demonstrably succeeded or have even obviously failed in the very country of their origin.

'INDIGENOUS REMEDIES'

2. Passing on now to suggestions coming under the description of 'indigenous remedies'—these too, it will be recalled, have been mentioned in Chapter 7—it may be noted that these relate to more than one category among the different agencies of credit: the moneylender, the commercial bank, the co-operative credit movement, and finally the State, both by itself and in relation to the structure and operations of co-operative credit.

MONEYLENDER

3. In regard to the moneylender, the main proposal mentioned was that he should be incorporated in the co-operative credit system itself as one of its sources of finance. Enough has been said in regard to the nature of the moneylender's operations to show that he is himself part of the problem which has to

be solved; while it would be unrealistic to ignore him, so also would it be unrealistic in the extreme to incorporate him as a part of the solution itself.

COMMERCIAL BANK

4. As regards commercial banks, they cannot, as is sometimes suggested, be of direct and material assistance to the agriculturist. They are not designed to be suppliers of medium-term or long-term credit, agricultural or other. Their short-term operations, in so far as the cultivator directly benefits by them, are not only negligible by themselves but are confined to a few instances of relatively large landholders who are able to produce the needed personal security in addition to that of land. We feel, therefore, justified in rejecting commercial banks generally as an agency suitable for inclusion in the integrated scheme of rural credit. This observation does not of course apply to the state-associated banks, including the Imperial Bank.

CO-OPERATION

5. Regarding Co-operation, in this chapter which deals with possible objections to the scheme formulated, we need only emphasize that the more orthodox model of co-operative finance has fallen far short of success in many States, if success is measured from the standpoint of social objective and not that of administrative efficiency displayed in the pursuit of more limited ends. This provides part of the justification for our proposing that the share capital of apex banks (and through them of central banks) should be composed on the basis of major State participation. This scheme of State participation is based on a rejection of the idea that co-operative credit is a closed enclave which has no organic connexion with planning; it is also based on a recognition of the fact that State participation in Co-operation cannot stop short at an intermediate stage, but must be taken to its logical conclusion which is that of providing for the cultivator a strong and suitable superstructure such as can be effectively operated for his benefit through the financial, administrative and technical participation of the State.

AGRICULTURAL CREDIT CORPORATION

6. The inadequacy of co-operative credit as a whole in India and its uneven development in different parts of the country have led to proposals for the establishment of Agricultural Credit Corporations. As indicated in Chapter 7, there are two distinct sets of proposals to be considered in this context. One of them figures among the more important recommendations of the Agricultural Finance Sub-Committee. The type of Agricultural Credit Corporation there proposed is one to be set up by each State for itself. The main objection to State Agricultural Credit Corporations has come from co-operators under the apprehension that institutions of this type might stand in the way of the extension of the co-operative form of credit where this was still undeveloped. At the same time, one of the lines of approach of the Agricultural Finance Sub-Committee, as we have stated elsewhere, led to the reorganization of the apex bank of Bombay on the basis of State partnership. On this same model is based a further development consisting in the establishment of new state co-operative banks by a number of States, and in the reorganization of the existing state co-operative banks by certain other States, in either case on the basis of State partnership in share capital and State association with structure and operations generally. Our recommendations on this point are not only consistent with, but in essence incorporate and further extend, this important feature of recent reorganization.

7. We next turn to the alternative of an all-India corporation. Our conclusion on this point is that the whole problem of agricultural credit in India is misconceived by those who think that some new institution of credit at the all-India 'apex' level will make any appreciable contribution to its solution. The problem is one of development of co-operative organization at all levels and especially at the base, and not one of financial and administrative reorganization more or less confined to the top. A programme of development so conceived has to be many-sided even as it has to be wide-based. In the scheme put forward by us, the Central Government and in particular the State Governments and the entire co-operative structure for which they are primarily responsible have their respective functions in each

particular sphere of development, and these functions are co-ordinated (1) with the Reserve Bank of India, so far as the development of co-operative credit is concerned, (2) with the National Co-operative Development and Warehousing Board and its auxiliaries for the development of storage, warehousing and co-operative economic activity, especially processing and marketing, (3) with the proposed State Bank of India, as well as with the Reserve Bank, for the creation of the needed facilities for rural and co-operative banking and, lastly, (4) with the Central Committee for Co-operative Training in regard to the organization of the training of the large and varied personnel required.

The stage is now reached for the elaboration of the integrated scheme of rural credit. The basic considerations underlying the scheme and the main principles governing it are given in Chapters 23 and 24. Thereafter, Chapters 25 – 36 contain the recommendations.

INTEGRATED SCHEME (I) : BASIC CONSIDERATIONS

IN terms of the number of people who live in villages on the one hand and in towns and cities on the other, India is very largely rural India; and in terms of the means of livelihood pursued, rural India is very largely the cultivator. Agriculture is far and away the largest industry of the country. A large increase in agricultural production has been planned and initiated; and the needs of a fast-growing population are likely to call for even bigger programmes of agricultural development than those now envisaged. Large holdings are relatively few and are likely to be fewer as a result of the land policies which Governments have adopted in pursuit of social ends. If only in the numerical aspect, therefore, the medium and small cultivator, who from that point of view is already important, will become increasingly important as a person whose needs have to be studied and borne in mind in the formulation of policies of agricultural credit and development. Medium and small holdings now account for about two-fifths of the agricultural produce of the country; but, as large holdings give place to the not so large, more and more will the latter be significant even in terms of their share in the total production. With little new land left to be brought under cultivation, the increased production must for the greater part take place on holdings already cultivated; the modes of increase, in other words, must in the main be in the nature of more intensive utilization of land. They have to consist, for example, of better seed, more water, more fertilizer, better implements and better techniques of cultivation. A start has been made, but a great many of these improvements have yet to be effected in a great many areas. Much cost will be involved as well as considerable effort. Part of the cost, as in irrigation, will be borne by the State; for the rest, most cultivators will have to be helped with credit to meet the initial and recurring outlays needed for improvement of land and increase

of production. All this will be in addition to what the cultivator, at the present level of his productive operations, needs by way of short, medium and long-term loans. Since by and large he is unable to put by, after each harvest, what he needs till the next for farm business and family maintenance, his normal credit requirements during the year include both the elements of 'production' and 'consumption'. In all these contexts arises the need for rural credit. We are more especially concerned with that form of it which is agricultural credit. Today, the agricultural credit that is supplied falls short of the right quantity, is not of the right type, does not serve the right purpose, and, by the criterion of need (not overlooking the criterion of credit-worthiness), often fails to go to the right people.

FAILURE OF CO-OPERATIVE CREDIT

2. For several important reasons, borne out by the experience not only of India but of many other economically undeveloped countries, it may be regarded as axiomatic that at the rural base, that is to say in the village itself, no form of credit organization will be suitable except the co-operative society. Where larger production is the aim, the moneylender's credit is obviously unsuitable. The alternative is institutional credit, private or other; but this tends more than ever to confine itself to the bigger cultivators if it is not channelled through some form of co-operative association of the borrowers. If, from this statement of a fundamental requirement, we turn to the record of co-operative credit in India, we notice individual instances of success coexisting with substantial failure in quantitative terms. The problem of future policy may therefore be thus summed up in the context of credit: Co-operation has failed, but Co-operation must succeed. The foremost objective of policy then becomes the positive and deliberate creation of conditions in which co-operative credit will have a reasonable chance of success. This makes it important to discover the main causes of its failure.

SOCIO-ECONOMIC BACKGROUND

3. Many reasons are usually given, but not always in full realization of the extent and nature of the failure of co-operative

credit in India. Functional, structural and administrative defects, dearth of suitable personnel, lack of training, a background of illiteracy, the grave and chronic deficiency in roads, storage and other vital economic requirements—all these are relevant as part of the explanation. The main causes are much deeper. They are largely socio-economic in character and are relatable to certain fundamental weaknesses which have developed in the rural structure. Some of the factors making for weakness, such as caste, have always been there; some of the weaknesses are inherent in most agricultural economies, especially those which consist of small units of operation together covering a vast area; but the features most significant in this context are those which have emerged from the combined impact of commercial colonialism, industrialization and urbanization on these pre-existing conditions. As a result of all the three has been imposed for nearly one hundred years, a powerful, urban and highly monetized economy on a rural structure which had economically been self-sufficient and which socially continued to be based on caste. In its origin, the monetized economy was associated with colonial commerce; the latter was supported by colonial rule and administration; with such commerce and administration were associated big financial institutions such as banks and trading houses. In its development, this monetized economy derived strength and support from all these and in particular from the financial institutions which indeed were its accompaniment. The colonial rule underwent transformations; it became more and more beneficent in its objectives as well as more and more democratic in its character, till finally it gave place to full independence and democracy. However, the financial institutions associated with it or growing under its auspices have in character and functioning remained substantially unaltered. In their effect on the rural economy, in their relations to it and in their attitudes towards its real interests, there has been little change of any significance in the powerful institutions of industry, trade and finance.

WEAKNESS OF RURAL ECONOMY

4. It is against this background that we have to consider the weakness of the rural economy. It may be regarded as of two

kinds: internal to the rural structure and external to it. The internal weakness, in one of its main aspects, is relatable to those conditions in which alone it is possible for optimum wealth to be produced in rural areas. The factors here are social, economic, technological, educational, etc. They pertain to the size of the cultivating unit, the availability of irrigation and other facilities, the existence and scope of subsidiary occupations, the methods of cultivation pursued, the cultivator's attitudes towards production, his habits of thrift or wastefulness and the extent to which guidance is given him or action taken for his benefit in respect of all these. The external aspect is related to the maladjustment between the rural structure and the forces of the urban economy. This maladjustment is strikingly obvious in relation to that part of the urban economy which is expressed in the financial mechanism to which we have referred. The components of this mechanism are many. There are the commercial banks and the whole superstructure of banking; the insurance companies and the investment trusts; the indigenous banker and the moneylender, whose operations, even if only indirectly and at some points, are nevertheless significantly geared to the commercial and central banking mechanism. There is also, in the same sector, the whole organization of urban trade from the big trading firms and the commodity exchanges to the middlemen and the brokers, the private traders and the private markets, the latter both 'regulated' and unregulated. This trading organization is also linked to the commercial and central banking mechanism. By and large, neither the banking system nor the trading organization operates in a way which is in the interests of the rural economy; and together they are much more powerful than any factor or combination of factors that can be internally marshalled from the rural economy itself.

5. The two aspects mentioned above are interrelated. The internal weakness, partly inherent in any agricultural economy but partly of a type which is characteristic of Indian conditions, prevents the cultivator from making use of the external mechanism of banking or of deriving his due share of benefit from that of trading. The external mechanism itself, partly on account of its historical development and inherited attitudes,

does not reach down to any except the top layer of the rural economy. It finds that the rural economy is not so organized as to be a good business proposition for urban financial institutions. Meanwhile,² through its very powerfulness it distorts those processes in the rural economy which stand for internal strength and cohesion. This distortion is caused partly by the very existence of a strong force alongside of a weak one and partly by the interpenetration of the former into the area of the latter through moneylenders, traders, etc. This interpenetration takes the form of the existence in the village itself and within the directorates and managements of rural associations and institutions, such as co-operative societies or village *panchayats*, of a strong element of leadership and influence which, in its interests and attitudes, is attuned not to the other and weaker classes of the rural population, but to the urban forces from which it derives its strength. This element is in the forefront whether the village institution is a body nominated from above or elected from below. It consists of those who have certain types of advantage such as ownership of a big holding, or possession of relatively large resources together with the technique of lending them in the form of cash, or a certain degree of education. Any one of these and similar advantages—and quite often more than one exist in combination—gives the possessor a status in the village and a power for good or evil far out of proportion to the nature of the possession itself. This is almost wholly explained by the access which the possessor thereby obtains to the urban sector in which all the real power and influence and finance reside. The total problem thus created is one which, today, the internal strength of the village is powerless to solve. This is so largely because of the totally disproportionate character of the other strength pitched against it: a strength channelled down from the sources of power and finance.

6. The picture which thus emerges, with the internal and external elements pieced together, is one in which the failure of co-operative credit falls into place, especially that important aspect of the failure which consists in the relative neglect of the credit needs of the medium and the small cultivator and in the reluctance to enlarge membership or take on further responsibilities. At the same time, the utter inadequacy of the total

operation becomes for its part explicable in the light of the unequal competition offered by the external mechanism of banking and, linked with it, the often unfair opposition—in addition to the wholly unequal competition—presented by the external organization of trade. Apart from the competition and opposition are the ingrained, if impersonal, attitudes which characterize the larger part of the urban sector, administrative, financial or banking, in its relations with the rural area and the rural population. Rural credit in India, therefore, is part of the larger and living context of India itself. It can neither be understood nor hoped to be solved except as part of such context. As a felt difficulty its locale is the village, but both cause and remedy have to be sought in other places besides the village; in this sense it ceases to be merely 'rural'. As a felt need its form may be borrowing, but the need itself is an economic one and therefore part of a larger economic activity and purpose; in this sense it ceases to be a merely technical matter of 'credit'. We have said earlier in this chapter that the first objective of policy should be to create conditions in which Co-operation will succeed. In the light of the further analysis this has been seen to imply the twofold task of rectifying the internal weakness and the external maladjustment of the rural structure. In this sense, the problem of rural credit becomes inseparable from that of the reorganization of the socio-economic structure of the Indian village itself; in other words, paradoxical as it may sound, the problem of rural credit in India is not primarily one of rural credit. Rather, it may be said to be one of rural-minded credit.

CONDITIONS OF SUCCESS

7. The prescriptions for the reorganization of co-operative credit hitherto made or tried may be described as attempts to rectify the internal weaknesses of the credit structure without taking into account the weaknesses of the rural structure as a whole, much less its maladjustment to the external mechanism of urban trade and finance. Most reforms of the co-operative movement, attempted or effected, have therefore been in the nature of inevitably futile attempts to combine the weak against the strong in conditions in which the weak have had no chance. Thus, effort has been concentrated on thrift, better

living, multi-purpose activity, etc., without the prior preparation needed for correcting the maladjustment between the two economies. The arena was cleared for a fight between the weak and the strong with the rules of the game heavily weighted in favour of the strong. The first task is to rectify this position. In other words, conditions must first be created in which Co-operation can properly function. No criticism of that functioning is likely to be useful or fundamental unless those conditions are first created. The choice before Co-operation is, therefore, indefinitely to continue in various degrees to be unable to help itself or to be helped in order that eventually it may not only help itself but need no other outside help.

STATE PARTNERSHIP

8. That initial help can only come from the State if it is to be of the requisite magnitude and of a type which will enable the co-operative organization to withstand the pressure of opposition of vested interests. The manner of the help, therefore, cannot be merely administrative. The State's way of help hitherto has been to over-administer and under-finance. But that is no remedy for a total problem which may now be seen to be one, not of rural-minded credit alone, but of rural-minded credit in conjunction with rural-minded development of agriculture and rural-minded organization of marketing, processing, etc. The total programme needed may be described as one of rural reorientation of the operative forces of the country's administrative and financial organization. It implies a combination of rural conscience, rural will and rural direction. Such a combination strong enough to be an overriding factor in the situation has to come from Government and the more powerful institutions of Government. In Co-operation we have what may be described as a combination of the weak at the bottom. The State is or ought to be a combination *for* the weak at the top. An effective programme is possible only if the State at one end joins hands with co-operatives at the other in an effort to bring about the rural-mindedness that is needed. The process of collaboration hitherto may be described not so much as the joining of hands as the occasional and ceremonial shaking of hands.

Thus, through one important part of our recommendations runs the theme, not only of State guidance and State aid, but also of State partnership with co-operatives in credit, processing, marketing, etc. Since the operations of the banking mechanism as a whole have an important bearing on the first of these aspects, viz., co-operative credit, and the institutional development of storage and warehousing is organically connected with the second, viz., processing, marketing, etc., two other basic considerations which underlie different but connected parts of the recommendations are the need for positive State association with a defined sector of commercial banking and the need for State initiative and State participation in the creation of suitable institutional means for the promotion of storage and warehousing on an all-India scale. For each of these purposes, the training of proper personnel is necessary. Another, and important, aspect of the solution will therefore have to be a comprehensive all-India programme for the training of personnel at all levels.,

INTEGRATED SCHEME (II) : MAIN PRINCIPLES

THE integrated scheme of rural credit follows directly from the analysis given in the previous chapter. It is based on the three fundamental principles of: State partnership at different levels; full co-ordination between credit and other economic activities, especially marketing and processing; and administration through adequately trained and efficient personnel, responsive to the needs of the rural population. These may be elaborated as follows:

MAIN PRINCIPLES

1. State partnership, including financial partnership, in co-operative *rural credit* in order that such credit may not only be expanded and strengthened, but expanded and strengthened for the positive purpose of production and for the positive benefit of the rural producer.
2. State partnership, including financial partnership, for the benefit of the rural producer, in a programme for the organization of *processing and marketing* on a co-operative basis and for the development of *storage and warehousing*.
3. State partnership, including financial partnership, for the benefit of the rural producer, in a programme for the organization on a co-operative basis of such of the other economic activities of the village as are of importance to him as cultivator, agricultural labourer or handicraftsman, these activities including farming, irrigation, provision of seed and manure, transport, fisheries, *milk supply, dairying, livestock-breeding and cottage industries*.
4. Integration of, and the State's financial participation in, an important sector of commercial banking (viz., that which in

various degrees is already associated with the State and which, if the banks concerned are made to come together, broadly covers the whole of India) in order that the state-partnered, country-wide banking institution so formed may, among other things, be charged with and carry out the positive duty of endeavouring to do its best to help the development of *rural and co-operative banking*. It will be expected to discharge this duty by the several means open to it including, principally, the effecting of arrangements for the readier and cheaper remittance of money, especially in relation to the relatively undeveloped areas which have been neglected by commercial banks and in which, without such facilities, no development is possible of rural or co-operative banking.

5. Recognition of the importance of *training* a new type of personnel altogether, which is not only technically qualified, but is also in its sympathies, attitudes and mental equipment rurally biased (i.e., among other things is trained to feel at home in rural society, to respond readily to rural needs, to study them with understanding, and to administer to them without distinction of class or person) in order that the new functions devolving on the State by reason of the above may be discharged both efficiently and for the benefit of the rural population.

6. Recognition of the need so to design *the extent and manner of State participation* involved in State partnership as to ensure that, while responsiveness to the new policies is effectively created, every precaution is taken to safeguard the essential character of the institution in which such participation takes place and nothing is done such as may lead to State interference in its day-to-day working; recognition, further, so far as co-operative credit and co-operative economic activity are concerned, of the need so to regulate the extent of State partnership at different levels as (1) at the rural base to leave scope for the societies to become fully 'co-operative', within a measurable period, by the process of themselves replacing the State part of the share capital and (2) at the higher levels to retain what may be described as the major partnership of the State until such time, however long, as may be required in the interests of the co-operative organization at the rural base which, before it

develops sufficient strength, and for the purpose of developing such strength, will need, against the competition and opposition of private vested interests, and for various other reasons, a support which is at once powerful, sympathetic, financially adequate and technically competent.

7. Recognition of the consideration that *rural savings* are best mobilized through, and in association with, productive economic activity in which the cultivator, the labourer and the worker in cottage industries are direct participants, and that the savings so mobilized (and very much more) will all be needed, and should therefore be utilized, for the benefit of the rural areas themselves.

THE RESERVE BANK: RECOMMENDATIONS

OF the Reserve Bank's role in the integrated system, we have three principal observations to make: (1) It is of crucial importance. (2) It represents a natural and logical evolution. (3) It adds to the Reserve Bank's strength, soundness and ability in the discharge of its wider functions as the Central Bank of the country. These need to be further explained.

2. The integrated scheme, it may be recalled, is concerned with three main items, viz., development of co-operative credit, expansion of co-operative economic activity (especially processing and marketing) and training of co-operative personnel. In relation to the first, the Reserve Bank will occupy the most strategic position; in regard to the other two, it will be among the principal participants; and, for all three, much will have to be expected of it by way of co-ordination. Thus, the Reserve Bank's role in the integrated system will be of crucial importance.

We have referred to state-partnered co-operative credit and to state-initiated development of rural banking facilities. The Reserve Bank, as we have seen, has already initiated progress in both these directions. Further, it has initiated and is now one of the two principal partners in the all-India scheme of co-operative training. These and other steps it has already taken may be regarded as justifying and leading up to the role assigned to the Reserve Bank in the integrated scheme here envisaged.

Lastly, we believe that, by the suggested enlargement of the 'development' functions it has already assumed, however much the Reserve Bank may be further departing from the orthodox pattern of central banking in other and differently situated countries, it will at the same time be approaching nearer what the Central Bank of *this* country ought to be. These 'development' activities will, for their pursuit, require personnel and

finance. The personnel is—and, as necessary, more personnel can be—provided in those distinct departments of the Bank which exist or have been newly created for the purpose. As for the finance, our scheme deliberately provides for two distinct Funds from which will be met the new liabilities arising from the new functions and the new responsibilities. These are some of the considerations we have in mind in making the third observation at the beginning of this chapter to the effect that the integrated system outlined by us will not only not detract from the strength, soundness and ability of the Reserve Bank to discharge the entirety of its inherent functions as the Central Bank of the country, but in fact result in a considerable accession to such strength, soundness and ability; all this, of course, besides immeasurably increasing its usefulness to the country of which it is the Central Bank.

Proceeding now to deal with the recommendations, we divide them into two categories: (1) recommendations concerning functional and legislative matters, and (2) recommendations concerned with administrative and other matters.

FUNCTIONAL AND LEGISLATIVE MATTERS

3. The Reserve Bank should contribute (1) not less than Rs 5 crores per annum to the National Agricultural Credit (Long-term Operations) Fund and (2) not less than Rs 1 crore per annum to the National Agricultural Credit (Stabilization) Fund; the position in regard to these contributions should be reviewed at the end of five years. In addition, there should be an initial non-recurring allotment of Rs 5 crores to the National Agricultural Credit (Long-term Operations) Fund. The operations of these Funds and the planning and execution (within the Reserve Bank's own sphere) of the programmes and policies for which they are intended to be utilized should remain the responsibility of the Reserve Bank and its Board, in their normal functioning, and should not be vested in a separate body, statutory or other.

4. Out of the National Agricultural Credit (Long-term Operations) Fund, the Reserve Bank should be enabled to make long-term loans to State Governments for the purpose of their

subscribing, directly or indirectly, to the share capital of co-operative credit institutions, whether these are institutions which give short-term and medium-term credit (state co-operative banks, central co-operative banks, larger-sized primary credit societies, etc.) or long-term credit (central land mortgage banks, primary land mortgage banks, etc.); provided the institution is one mainly designed for giving *rural* credit, either in the sphere of agricultural and ancillary activities or of cottage and small-scale industries.

5. The Reserve Bank should continue to make short-term accommodation available through state co-operative banks; as at present, such accommodation should be usually given on the guarantee of State Governments. The proposed increase in the share capital of state co-operative banks, central banks, etc., will make possible a considerable increase in the volume of short-term agricultural credit now supplied by the Reserve Bank. The Reserve Bank should also give medium-term loans (15 months to 5 years) to state co-operative banks and through them to central banks or societies. The present overall statutory limit of Rs 5 crores should be removed as well as the restriction relating to the owned funds of the state co-operative banks. The medium-term loans would be given out of the National Agricultural Credit (Long-term Operations) Fund.

6. The Reserve Bank should be enabled to give long-term accommodation to land mortgage banks (1) by way of direct loans and (2) by purchase of the whole or part of 'special development debentures' of the land mortgage banks. It will do so by drawing upon the National Agricultural Credit (Long-term Operations) Fund. This type of operation will be distinct from the purchase of 'marketable' debentures which, in pursuance of the Bank's existing policies, is already part of its ordinary operations. In all these cases, both principal and interest should be guaranteed by the State Government.

7. The National Agricultural Credit (Stabilization) Fund should be utilized by the Reserve Bank for the purpose of granting medium-term loans to state co-operative banks etc., in circumstances in which it is satisfied that short-term loans of which repayment to it has become due by the state co-operative

banks etc., cannot, without serious dislocation to the credit structure of the State's co-operative system, be repaid in due time on account of famine, drought, etc., and consequently that repayment of such loans, or part thereof, may justifiably be allowed to be deferred. In such a case, a book adjustment will be made between the Stabilization Fund and the Banking Department of the Reserve Bank. The short-term loan will be technically treated as repaid to the Banking Department, but in effect converted into a medium-term loan from the Reserve Bank's Stabilization Fund. The Reserve Bank may make this facility conditional on the state co-operative bank concerned maintaining a similar Agricultural Credit Stabilization Fund, the same applying to central banks and, where feasible, the larger-sized primary societies. The Reserve Bank, in such a case, may further insist that part of the overdue liability should be met from such Stabilization Funds kept within the co-operative credit structure itself.

8. We recommend that the Reserve Bank of India Act be so amended as to make it obligatory on all State Governments, and not merely as hitherto the State Governments of Part A and Part C States, to appoint the Reserve Bank as their sole banker. As we have pointed out in Chapters 16 and 17, the Governments of most Part B States have in fact appointed the Reserve Bank as their banker, the exceptions being the Governments of Rajasthan and PEPSU. The Reserve Bank's own far-reaching functions in the integrated scheme can hardly be discharged effectively in the area of a State which refuses to be organically linked with the Central Bank of the country. Further, the co-operative banking structure in the State will lose all the advantages from the close association, at different points, with the State Bank of India. Over and above all this, of course, is the overriding consideration that the sole custody of all Government balances—Central or State—must be regarded as an essential part of the functions of a Central Bank based on the model adopted for the Reserve Bank of India. From every angle, we attach importance to its not being open to a State Government to refuse to appoint the Reserve Bank as its sole banker. We recommend amendment of law to that end, including, if necessary, amendment of the Constitution.

9. Turning now to the Reserve Bank's status and functions *vis-a-vis* the State Bank of India, it will be necessary to amend section 19(2) of the Reserve Bank of India Act so as to enable the Reserve Bank to hold shares in the State Bank of India. We also suggest that it be statutorily provided that it shall not be open to the Reserve Bank to appoint any bank other than the State Bank of India as its agent for the maintenance and operation of currency chests. There should of course be a similar obligation on the State Bank to continue to be agent. At present, the individual agreements between the Reserve Bank on the one side and the Imperial Bank, the Hyderabad State Bank and the Bank of Mysore on the other are in each case terminable after a prescribed minimum of years on a notice being given in advance by either party. We consider that there should be no question of such termination, once the State Bank of India has been established. Provision should of course still exist for the periodical revision of any financial arrangements such as the commission payable on the turnover of Government business; but the basic relationship of agency should be provided for in perpetuity and under statutory provision.

ADMINISTRATIVE AND OTHER MATTERS

Arising in connexion with the State Bank of India

10. In regard to the administrative measures and effort which will be required in the process of establishment of the State Bank of India, we consider that the phased implementation of our recommendations in this respect should be entrusted to the Department of Banking Development which has during the last two or three years already done a great deal of preliminary work that has a bearing on what we have now recommended and which in fact has succeeded in bringing about what amounts to 'banking integration' between a number of Part B States and the Reserve Bank, through the appointment of the latter as the sole banker of the former, besides having been instrumental in imposing a certain degree of special control over such 'State' banks as have been appointed agents of the Reserve Bank. The Department of Banking Development will have an important part to play in matters such as co-ordinating, supervising and generally carrying out the programme for the

establishment of the State Bank of India and the extension of its branches into the interior, and effecting co-ordination between the State Bank and the co-operative credit structure. The Department should be enlarged and made a permanent feature of the Reserve Bank.

Arising in connexion with the development of co-operative credit

11. It is clear that, as a result of the developments which we contemplate, the Agricultural Credit Department of the Reserve Bank will have to be considerably expanded and reorganized and manned by a personnel which is large enough, has adequate training and qualifications and, above all, is not lacking in the needed understanding and responsiveness in dealing with rural problems. The programme of development envisaged also implies closer and more constant contact between this organization and the State Governments. There will therefore have to be a certain degree of decentralization of the Agricultural Credit Department. We recommend that, as early as recruitment, training, etc., make this possible, branches of the Department should be gradually set up in Delhi, Calcutta, Madras, Bangalore and other suitable places. One of the important duties of the officers in charge of these branches will be to collaborate with the State Governments in the fulfilment of the Bank's policies. Inspection of co-operative banks will also be among their duties. Besides assessing the soundness of the credit institutions which get finance from the Reserve Bank, the inspection should reveal the points at which and the manner in which the credit movement in the particular area needs to be reformed or strengthened so that the credit reaches the medium and small cultivator and is utilized by him for the particular purpose intended. The lines on which inspection is to be conducted should, at the appropriate stage initially, and thereafter from time to time, be embodied in manuals and instructions issued by the head office of the Department in Bombay.

12. From what we have said above, it is clear that recruitment and training are two of the key considerations to be borne in mind in the process of expansion and reorganization of the Agricultural Credit Department. The best possible people from all over India with qualifications in co-operative administra-

tion, co-operative banking, co-operative marketing, etc., together with the particular qualifications and experience necessitated by special lines such as land mortgage banking, should be selected to man the top posts of the Department. For these as well as for the existing officers and staff, and depending on the functions allotted to each, different courses of intensive training will have to be devised, partly within the Department and partly in the form of special courses (where necessary) in the co-operative training colleges, both all-India and regional, organized by the Central Committee for Co-operative Training.

We have already said that the Department should be considerably expanded and reorganized. We do not propose to enter into the details of the reorganization, but we hope that for the Chief Officer (and Additional Chief Officers, if any) at the head of the Department, will be selected one or more who combine in themselves experience, soundness and, above all, responsiveness. In the matter of co-operative training for example (which we consider might well justify a Chief Officer or Additional Chief Officer for itself), we recommend that an outstandingly suitable person should be selected to assist the Central Committee.

13. For advising the Reserve Bank from time to time on various policy matters, there should be two organizations, one wider than the existing Standing Advisory Committee on Agricultural Credit and constituted on a more representative basis, and the other smaller than the existing organization and designed to be specialized and expert rather than representative. The first should be for reviewing policies at not too frequent intervals, and the second for supervising their fulfilment and offering detailed advice at more frequent intervals. For the former purpose, an Advisory Council representative of all or most of the States and including economists, co-operators, etc., should be set up. It should meet once or twice a year. This Council might be common to the activities of the Reserve Bank and the Government of India in its Ministry of Food and Agriculture and, associated with it, the National Co-operative Development and Warehousing Board. The smaller body for the Reserve Bank might bear the same name as now in use, viz., the Standing Advisory Committee on Agricultural Credit, but

its total strength might be much smaller. It should consist of representatives of the Reserve Bank, the Planning Commission and the Ministry of Food and Agriculture, together with two or three economists and non-official co-operators. The Committee could, for particular meetings, co-opt Registrars or other representatives from different States, whenever necessary. The meetings of this Committee should be held at least once every quarter.

THE STATE BANK OF INDIA: RECOMMENDATIONS

WE recommend the establishment of a 'State Bank of India', by statutory amalgamation of (1) the Imperial Bank of India; (2) the ten major state-associated banks, viz., the State Bank of Saurashtra, the Bank of Patiala, the Bank of Bikaner, the Bank of Jaipur, the Bank of Rajasthan, the Bank of Indore, the Bank of Baroda, the Bank of Mysore, the Hyderabad State Bank, the Travancore Bank; and (3) certain small state-associated banks, such as the Sangli Bank, the Manipur State Bank, the Bank of Baghelkhand and the Mayurbhanj State Bank. For future extension of the process, as and when necessary and appropriate, and subject to notification by Government, the same statute should contain provision for similar compulsory amalgamation with the State Bank of India of suitable, relatively small commercial banks whose branches are so situated as to be complementary in point of area of operation to that of the State Bank.

We may recall here, in order to place the above recommendations and those which follow in their proper context, that their object is the creation of one strong, integrated, state-sponsored, state-partnered commercial banking institution with an effective machinery of branches spread over the whole country, which, by further expansion (including further, but minor, amalgamation where necessary), can be put in a position to take over cash work from non-banking treasuries and sub-treasuries, provide vastly extended remittance facilities for co-operative and other banks, thus stimulating the further establishment of such banks, and, generally, in their loan operations, in so far as they have a bearing on rural credit, follow a policy which, while not deviating from the canons of sound business, will be in effective consonance with national policies as expressed through the Central Government and the Reserve Bank.

“ COMPENSATION ”

2. The relevant process being conceived for legislative purposes as the enlargement of the Imperial Bank by amalgamation with certain other banks, what is primarily involved is the taking over by the Imperial Bank of the assets and liabilities of the other banks, and the issue to each individual shareholder of each of these other banks of shares of the State Bank of India by way of compensation for his proportionate interest in the other bank, i.e., in the surplus of the assets of such bank over its outside liabilities.

A suitable basis should be adopted for computing the ‘ compensation ’ which, in the form of shares of the new institution, is to be paid to the shareholders of the other banks. Beyond emphasizing that it should be simple and expeditious, and at the same time fair to the different parties to the transaction, we do not propose to make suggestions regarding the basis itself.

After the total quantum of compensation in respect of each of the banks amalgamating with the Imperial Bank has been arrived at, the working out of the ‘ compensatable value ’ of an individual share of each such bank is merely a matter of arithmetic. This value or amount has to be expressed in terms of the shares of the new institution. These may be called ‘ new compensatory shares ’. Briefly, the basis of this further conversion of the compensatory amount into ‘ new compensatory shares ’ would be the ratio, for identical face values, between the ‘ compensatable value ’ of a share of the state-associated bank and the market value of an Imperial Bank share. For certain purposes connected with the further suggestions regarding structure of share capital etc., which we have to offer, as also for a rough estimate of financial implications, it is necessary to assume, for all the state-associated banks taken together, a ratio which is likely to be near enough to the eventual ratio when that is worked out after necessary investigation and in necessary detail. As sufficiently approximate for these purposes, we shall assume this average ratio to be the simple one of 3 : 11. We shall further assume, what on the data in our possession seems reasonable, namely, that the total quantum of compensation is likely to be of much the same order as the total of the paid-up capital and reserves of all the state-associated banks together (about Rs 10 crores, of which Rs 4 crores, according to available information,

pertain to State Governments). On the two assumptions mentioned, the State Bank will have to issue 'new compensatory shares' of the total face value of about Rs 2.73 crores. If (as we suggest) each share is of the face value of Rs 125, the total number of 'new compensatory shares' to be issued will be about 2,18,400. Out of these, the shares allottable to certain State Governments against the shares they own in the relevant state-associated banks will together be of the face value of about Rs 1 crore; and those to be allotted to the private shareholders will be of the face value of about Rs 1.73 crores. As regards the former, we suggest that the Government of India take over these shares on payment of the corresponding value to the State Governments. The result will be that the paid-up capital of the Imperial Bank (after amalgamation) will increase to Rs 8.35 crores (Rs 5.62 crores plus Rs 2.73 crores), out of which Rs 7.35 crores will remain in private hands and Rs 1 crore will go to the Central Government. All this will be fully paid-up.

CAPITAL STRUCTURE

3. In view, among other things, of the much larger programme of branch extension which the new institution is intended to carry out, we recommend that the *authorized* share capital be adequately increased; we suggest that this increase should be from the present Rs 11.25 crores to Rs 20 crores. We also suggest that additional fully-paid shares to the extent of Rs 7 crores be issued by the new institution, thus bringing the paid-up capital to Rs 15.35 crores (Rs 8.35 crores plus Rs 7 crores, against an authorized capital of Rs 20 crores). The number of 'new additional shares' (as distinguished from new compensatory shares) to be thus issued will be 5,60,000.

4. We recommend that, simultaneously with the amalgamation and the expansion of share capital already recommended, the Government of India and the Reserve Bank take up shares in the reorganized institution—largely by being allotted new shares and partly (as already suggested) by acquisition of the old shares held by State Governments in some of the amalgamating institutions—of an order that will ensure (for the Central Government and the Reserve Bank together) a voting power of not less than 51 per cent.

The new shares allotted to Government and the Reserve Bank should be non-transferable and the dividend payable on them should be statutorily limited to 5 per cent. This special category of shares should be issued at par to Government and the Reserve Bank.

DIRECTORATE

5. We recommend that the Government of India and the Reserve Bank together nominate the majority of directors on the Central Board of the State Bank of India. The Chairman should be appointed by the Government of India after consultation with the Board. The Managing Director and the Deputy Managing Director should be appointed by the Board with the approval of Government; the removal of either of them should be subject to the same condition.

We recommend that the Local Boards (in the form constituted under the Imperial Bank) be converted into Local Committees of which the Chairman and a majority of the members should be nominated by the Central Board. New Local Committees should be constituted for some of the areas now served by two or more of the amalgamating banks other than the Imperial Bank. We think there should be six Local Committees in all, one for each of six conveniently divided areas covering the whole country. The Chairman of a Local Committee should be nominated by the Central Board from among the members of the particular Local Committee. In exercising its power of nomination, the Central Board should, as far as possible, ensure adequate and reasonable representation of agricultural and co-operative interests, besides commercial, industrial and other interests. We are of the view that no official of a State Government should be nominated on the Local Committee.

The first Central Board should be wholly nominated by the Government of India. The life of the first Board may perhaps be limited to two years.

ADMINISTRATIVE MATTERS ETC.

6. We recommend that the earliest possible decision and action, both legislative and administrative, be taken on the proposed integration. In this process, we envisage close administrative co-ordination between the Reserve Bank on the one

hand and the Imperial Bank and the other state-associated banks on the other. We suggest that, on the part of the Reserve Bank, the Department of Banking Development should be entrusted with this task. One main principle to be observed would be that no permanent—or virtually permanent—employee of any of the banks should have his services terminated as a result of the amalgamation. Another principle should be that no temporary employee who has more than a prescribed number of years to his service should be sent out, if indeed that contingency arises, without reasonable compensation. The special administrative arrangements should be so pursued as to settle all the transitional problems within one year of the completion of legal amalgamation.

INTEGRATION AND DEVELOPMENT FUND

7. We recommend that an 'Integration and Development Fund' be instituted within the State Bank of India. The dividends earned by Government and the Reserve Bank on their shares in the institution should be diverted to this Fund. An initial contribution of Rs 50 lakhs in all should be made to the Fund by Government and the Reserve Bank as also subsequent *ad hoc* contributions as and when necessary. The main purpose of the Fund is to meet, when necessity arises, the net additional cost to the State Bank involved in opening, in pursuance of State policy, such branches as may initially be unremunerative.

Since the annual amount credited each year to the Integration and Development Fund is likely to be of the order of Rs 50 lakhs, this should, even after provision has been made for other liabilities if any, enable a much wider and speedier programme of branch extension on the part of the State Bank than it has so far been possible for the Imperial Bank to undertake. If at any time the Integration and Development Fund is unable fully to meet the types of charges debitable to it, further *ad hoc* contributions (besides the annual contributions) would, as indicated above, be made to it by the Central Government and the Reserve Bank who would also make an initial contribution of Rs 50 lakhs to the Fund. We suggest that the initial and *ad hoc* contributions made by Government should bear to those made by the Reserve Bank

the same ratio as the total dividend payable to it bears to that payable to the Reserve Bank.

The three types of liabilities against the Integration and Development Fund are as follows :

1. A part or the whole of the loss, if any, incurred in the realization of specified assets or classes of assets (e.g., loans) among those taken over from the state-associated banks at the time of integration, provided liability for them has been assumed by the Government of India and the Reserve Bank in the specified manner ;
2. A part or the whole, as specified, of the additional expenditure, for each year over a prescribed period of years, incurred on any upgrading of the pay-scales of the staff of the state-associated banks necessitated in the process of the transfer of such staff to the integrated institution ;
3. A specified part of the loss, for prescribed periods, on branches opened at the direction of the Reserve Bank.

BRANCH EXTENSION AND CO-ORDINATION

8. There should be no interference by the State in the day-to-day operations of the State Bank of India. Nor of course should there be any lowering of the standards of sound banking. For its part, the State Bank should endeavour to be responsive to the needs of co-operative institutions connected with credit and, *especially, marketing and processing*. (It is of course the Reserve Bank, primarily, which will continue to lend to state co-operative banks and through them to central banks etc.) The branch extension of the State Bank should be co-ordinated and, wherever possible, positively associated with the development of co-operative credit, from the point of view especially of the provision of cheap remittance facilities. Particular attention to this aspect should be given at the sub-divisional level, especially in those States in which the co-operative movement is relatively undeveloped.

As we have elsewhere indicated, the programme of branch extension should cover, in as short a period as possible, the more than 100 district headquarters which today have non-banking treasuries, and the more than 300 sub-divisional centres where at present there are non-banking sub-treasuries. It is possible

that experience will show that one sub-divisional banking currency chest for five talukas on an average will, after suitable reforms have been effected in procedure, serve to provide reasonably effective remittance and other facilities for all the other sub-treasuries in the area. The provision of sub-divisional banking currency chests on this scale of one for five talukas might be fairly adequate for providing cheap and ready remittance facilities to existing commercial and co-operative banks, if any, in the area, and what is potentially more important, for stimulating the establishment of new banks, especially co-operative banks, in the area. All this, as we have said, will be clear only from experience. As regards still further extension, therefore, the position may be reviewed after five years. Meanwhile, the programme we have recommended will suffice to engage the maximum attention, and will undoubtedly call for the most determined effort, on the part of the State Bank.

Not less important than branch extension itself is the planning of effective co-ordination at the sub-divisional centres between the State Bank and the co-operative banking system of each State. A vast opportunity for such co-ordination will present itself and, if it is fully and determinedly availed of, the potentialities for the development and extension of co-operative banking in the country are indeed of the greatest significance. Even in the earlier phases of this development there is envisaged at each district headquarters either a branch of the state-partnered state co-operative bank or a state-partnered central co-operative bank. In order that there may be effective linking even at that stage with the societies at the primary level, it is necessary that the co-operative financing agency should have branches at some intermediate level between village and district headquarters. Such branch expansion of co-operative banks has already taken place in many districts in co-operatively well-developed States; and the branches have reached down not only to the sub-divisional level, but to taluka centres etc., below. For less developed States and areas, we suggest that such branches should, by a concerted programme, be sought to be established at least at sub-divisional centres to start with, and thereafter at other suitable places (e.g., taluka headquarters). The State Bank itself can simultaneously expand to these centres and the two lines of expansion can be co-ordinated by

the Reserve Bank. To facilitate such expansion on the part of the co-operatives, we further suggest that, in its own building plans for its sub-divisional headquarters, the State Bank should, if so desired, make provision for accommodating the branch of the state-partnered central co-operative bank of the district or (as the case may be) of the state-partnered apex co-operative bank. Reasonable rent might of course be charged. But what is even more important than providing accommodation in its building is the further step we proceed to suggest, namely, that the State Bank of India should act at such sub-divisional places as the banker of the state-partnered co-operative bank (wherever such an arrangement is convenient to the co-operative institution concerned), just as it is, at these as well as at other places, the banker of the State Government itself.

One important set of suggestions remains to be made in this context. It concerns the present arrangements for the investment of the funds of local bodies and quasi-government institutions and the need for alteration in those arrangements in order to co-ordinate them with the new development envisaged in the country's banking system. At present, these funds are not always required to be deposited in one particular bank and in no other, as is perhaps only understandable in the present circumstances, of which the most important features are that the Imperial Bank is not yet a State bank, and most co-operative banks, especially at the district level, are neither state-partnered nor strong. All this will change if our proposals are accepted and implemented. When that begins to happen, it is clearly both proper and necessary that the state-partnered banks should be the repositories of the funds of local bodies as well as of institutions which are semi-government, quasi-government, government-aided and so on. It should be quite easy to evolve a working principle as to the type of funds which it should be made obligatory to deposit with the State Bank and those which should be required to be kept with a state-partnered co-operative bank, if there is one in the locality.

TRAINING

9. It will be necessary, at as early a stage of the integration as possible, to make arrangements for the training of the personnel

of the different banks which will constitute the State Bank of India. Full use should be made, for this purpose, of the training facilities which will be available in the Bankers Training College. Those officers of the State Bank who are likely to be posted as agents at district headquarters and similar places, and indeed the officers of the State Bank generally, should receive training for short periods at the All-India Co-operative Training Centre. We have elsewhere recommended that those in charge of co-operative banks should receive similar training in commercial banking.

We would also suggest that, in so far as state-partnered co-operative banking institutions at district headquarters are concerned, the local agent of the State Bank should invariably be nominated as one of the members of the board of the particular central bank. He should not have the power to vote, but should in all other respects function as a member of the board. We regard this process of 'cross-fertilization' as one of the means by which the technical quality of co-operative banking can be assimilated to the higher standards in this respect which obtain in commercial banking.

THE NATIONAL CO-OPERATIVE
DEVELOPMENT AND WAREHOUSING
BOARD AND ITS AUXILIARIES:
RECOMMENDATIONS

WE turn now to another important item of our recommendations, viz., the establishment of a National Co-operative Development and Warehousing Board, with two distinct Funds under its control—the National Co-operative Development Fund and the National Warehousing Development Fund—and with two distinct functions corresponding to the Funds. The first of these functions is the planning and co-ordination (and the financing in part) of a country-wide plan for the development, at and above the rural base, of state-cum-co-operative economic activity, especially co-operative marketing and processing. The second function relates to the planning, co-ordination and implementing of a country-wide programme for the development of the storage and warehousing of agricultural (and ancillary) commodities and, along with and through such development, the country-wide organization of a distributive machinery for reaching out to the agriculturist the basic goods he needs as producer and consumer.

It will be recalled that two of the main lines of development we have in view as basic to the integrated scheme itself are the extension of co-operative credit and the extension of co-operative economic activity; and, as earlier explained, these two should be divided, in point of responsibility at the all-India level of planning, co-ordination and finance, between the Reserve Bank on the one hand, and on the other the Government of India in its Ministry of Food and Agriculture. It seems to us obvious that the Reserve Bank should take upon itself the task of further extension of co-operative credit on the lines on which it has already been proceeding in the last few years, and that the Government of India should assume responsibility for the co-ordinated progress of the important items of warehousing

and distribution (including, but going beyond, the co-operative sector in regard to these two) and of other economic activities in the rural area, such as processing and marketing (in the co-operative sector alone so far as these are concerned).

NATIONAL CO-OPERATIVE DEVELOPMENT AND WAREHOUSING BOARD

Composition and Functions

2. We have already indicated the scope we envisage for the functions of the National Co-operative Development and Warehousing Board. We would recall that in Chapter 25, which deals with the Reserve Bank, we have recommended that this Board, in common with the Reserve Bank, have an Advisory Council, which will meet at least once a year and which, as far as practicable, will be representative of the co-operative and other interests concerned, as well as of the different State Governments.

The National Co-operative Development and Warehousing Board and the All-India Warehousing Corporation should be established by statute. The same statute should provide for the formation of State Warehousing Companies. We recommend that the Board should have the following composition :

- | | | |
|---|---------|---------------|
| 1. Minister for Food and Agriculture | .. | Chairman |
| 2. Secretary of the Food and Agriculture Ministry | | Vice-Chairman |
| 3. Representative of the Planning Commission | | Member |
| 4. Representative of the Finance Ministry (Department of Economic Affairs) | .. | „ |
| 5. Representative of the Railway Board | .. | „ |
| 6. Consulting Engineer (Road Development) to the Government of India, Ministry of Transport | | „ |
| 7. Chairman, Forward Markets Commission | | „ |
| 8. Representative of Reserve Bank (top executive in charge of rural credit in the Bank) | .. | „ |
| 9. Representative of the State Bank | .. | „ |
| 10. One economist | | „ |

11 and 12. Two co-operators Member

13 and 14. Two other non-officials „

The co-operators and the economist should be selected for their eminence in their particular line and (this applies to the non-officials also) should, if possible, possess outstanding familiarity with the problems of the rural economy of India.

≈ The Board should have a Standing Committee which is able to meet fairly often for formulation of subsidiary policies, for taking executive and financial decisions, and for reviewing and supervising the implementation of policies and plans. We recommend that the Standing Committee should consist of the Secretary of the Food and Agriculture Ministry (Chairman); representative of the Reserve Bank; one member to be selected from among numbers 10 to 14 of the Board, viz., economist, co-operators and non-officials; and one other member.

It is obvious that the Secretary of the Food and Agriculture Ministry, as Chairman of the Standing Committee, will have functions to discharge of a most important kind, and that the work involved as well as the attention required will be such as to leave him little time for all except the most important of his normal duties. We, therefore, recommend that he should be relieved, as far as possible, of these other duties by the appointment under him of an Additional Secretary who will look to the normal work of the Ministry.

3. We recommend that the functions of the Board be as follows:

1. (a) To promote the planned development, throughout the country, of the co-operative processing and marketing of agricultural commodities including commodities ancillary to agriculture or otherwise of importance to the rural economy;

(b) To promote the planned development, throughout the country, of agricultural production on a co-operative basis and of the co-operative organization of the prerequisites, facilities and processes of agricultural production (e.g., minor irrigation, farming, etc.), as well as of non-agricultural production, whether ancillary to agriculture or otherwise of importance to the rural economy (e.g., milk supply and dairying);

2. (a) To promote the planned development, on a country-wide basis, of facilities for the storage and warehousing of

agricultural commodities (including commodities ancillary to agriculture or otherwise of importance to the rural economy of the country), with the object, among other things, of expeditiously bringing about conditions in which increased institutional credit will be available for agriculture and, ultimately, of bringing about the ownership on a co-operative basis of as wide a network of godowns and licensed warehouses as possible;

(b) In conjunction, with the above, to promote, on a country-wide scale, the distribution to the cultivator, as far as possible on a co-operative basis, of seeds, manures, fertilizers, agricultural implements, tools of cottage industries, etc., needed by the cultivator as producer and basic, but standardized, requirements such as kerosene, sugar, matches, etc., needed by him as consumer;

3. In pursuance of the above objects, in so far as their fulfilment falls within the sphere of implementation of State Governments or the co-operative organizations of different States, to give financial aid and accommodation, to such extent and on such conditions as may be feasible and desirable, to State Governments and, through them, to co-operative organizations; and in pursuance of the same objects, to give other forms of assistance to State Governments and co-operative organizations;

4. To give general directions to the All-India Warehousing Corporation, and to attach conditions to any loan, subsidy or other assistance given to the All-India Warehousing Corporation or the State Warehousing Companies;

5. To administer the National Co-operative Development Fund and the National Warehousing Development Fund and, at its discretion, to make appropriations between the two Funds.

4. The Board's office, including its Secretary and its administrative, executive, expert and other staff should be provided by, and be part of, the Ministry of Food and Agriculture.

5. (1) For the discharge of such of its functions as pertain to co-operative development, the Board should collaborate, in an advisory capacity, with the State Governments.

(2) For the discharge of such of its functions as pertain to warehousing, the Board should act through the All-India Warehousing Corporation.

(3) In regard to 'distribution', the Board's functions will be principally those of planning, directing and co-ordinating the activities of the All-India Warehousing Corporation and State Warehousing Companies, which will themselves act as agents of the Government of India, State Governments, etc., under the general directions of the National Co-operative Development and Warehousing Board.

Funds

6. (1) There will be two Funds, viz., the National Co-operative Development Fund and the National Warehousing Development Fund.

(2) The Government of India should make an initial non-recurring contribution of Rs 5 crores to the National Warehousing Development Fund.

(3) Thereafter, out of the minimum of Rs 5 crores to be annually made available by the Government of India, Rs 3 crores should be allotted to the National Co-operative Development Fund and Rs 2 crores to the National Warehousing Development Fund, unless, for any particular year, a different allotment is suggested by the Board which should be consulted before each allotment. The Board will be at liberty to make appropriations between the two Funds.

(4) Other sources for the Funds will be *ad hoc* grants from the Government of India and foreign assistance. (Warehousing development of the order envisaged is especially suitable for foreign assistance. We would emphasize the desirability of obtaining substantial assistance of this kind, if possible, for this part of the programme.)

7. The National Co-operative Development Fund may be utilized for the following purposes:

1. To make long-term loans to State Governments, on such terms and conditions as the Board may deem appropriate, to enable the State Governments to subscribe to the share capital of co-operative societies when undertaking activities (especially processing and marketing) which fall within the purview of the objects of the Fund;

2. To give non-recurring or recurring subsidies to State Governments, or through them to co-operative societies, on such conditions as the Board may deem appropriate, for objects which fall within the purview of the objects of the Fund.

We consider that, as a rule, subsidies or loans to the State Governments should be conditional upon a certain percentage of the total expenditure or outlay being met by the State Government itself. The proportion to be so met by the State Government may, we suggest, be ordinarily not less than 25 per cent. Thus, there might be different gradations, such as 25 per cent contribution from those State Governments which are relatively weak financially, 50 per cent from some and 75 per cent from those which are in a relatively strong position financially. As a rule, there should be no compulsory acquisition of processing plants etc.; but an important exception would have to be made where members of a co-operative society, or persons prepared to form themselves into a co-operative society, the membership, composition, etc., being such as satisfy criteria prescribed by the Board, offer to subscribe not less than 30 per cent of the share capital. In such an event, and provided the State Government is satisfied that acquisition is in conformity with the public interest, it may, after notification, compulsorily acquire the concern. Briefly, we do not contemplate a monopoly for co-operative processing, marketing, dairying, etc., except for definite reasons in specific contexts. In this context, we recommend that State Governments should take steps to license all plants, factories and mills (other than at the cottage industry level) which are engaged in the processing of agricultural commodities or in related activities and meanwhile promote, as soon as possible, such legislation as may be necessary for the purpose.

8. The National Warehousing Development Fund may be utilized for the following purposes:

1. To subscribe to the share capital of the All-India Warehousing Corporation;

2. To make loans on such terms and conditions as the Board may deem appropriate to a State Government for the purpose of its subscribing to the share capital of the State Warehousing Company pertaining to its State;

3. To make loans on such terms and conditions as the Board may deem appropriate to the All-India Warehousing Corporation, to a State Warehousing Company (through the All-India Warehousing Corporation or otherwise), to State Governments and to co-operative societies (through the State Governments);

4. To give non-recurring or recurring subsidies on such conditions as the Board may deem appropriate to the same bodies and through the same channels as in 3 above.

ALL-INDIA WAREHOUSING CORPORATION

Share capital

9. We consider that the Corporation should have an authorized share capital of Rs 20 crores. Out of this, the issued and paid-up share capital should be Rs 10 crores.

10. We recommend that not less than 40 per cent of the share capital should be subscribed by the National Co-operative Development and Warehousing Board. The latter will therefore contribute Rs 4 crores to the total paid-up capital of Rs 10 crores. The initial non-recurring allotment of Rs 5 crores by the Government of India will enable the Board to contribute this amount to the share capital. (The remaining Rs 1 crore will enable it to commence giving loans and subsidies immediately.) The allotment of the balance of share capital should be as follows:

1. Not less than 10 per cent to the State Bank of India;
2. Not more than 15 per cent to other commercial banks;
3. Not more than 20 per cent to insurance companies, investment trusts, etc.;
4. Not more than 10 per cent to joint-stock companies which deal in agricultural commodities;
5. Not more than 5 per cent to organized forward markets such as the East India Cotton Association.

11. A minimum dividend on the share capital should be guaranteed by the Central Government on broadly the same lines as for the Industrial Finance Corporation. Similarly, debentures should be guaranteed as to both principal and

interest by the Central Government. There should also be other appropriate provisions analogous to those pertaining to the Industrial Finance Corporation.

Board

12. The members of the Standing Committee of the National Co-operative Development and Warehousing Board should be *ex-officio* members of the Board of the All-India Warehousing Corporation, and the Secretary of the Food and Agriculture Ministry, the *ex-officio* Chairman of the Board. This accounts for four members including the Chairman. We recommend that there should be seven other members (including three more from the National Co-operative Development and Warehousing Board) on the Board as follows:

1. Representative of the Railway Board (Member, National Co-operative Development and Warehousing Board) (*ex officio*);
2. Consulting Engineer (Road Development) to the Government of India, Ministry of Transport (Member, National Co-operative Development and Warehousing Board) (*ex officio*);
3. Representative of the State Bank of India (Member, National Co-operative Development and Warehousing Board) (*ex officio*);
4. One representative of the other commercial banks;
5. One representative of the insurance companies;
6. One representative of the joint-stock companies and forward markets;
7. Managing Director, who should be appointed by the National Co-operative Development and Warehousing Board in consultation with the Board of the All-India Warehousing Corporation.

Functions

13. Subject to the general directions of the National Co-operative Development and Warehousing Board and in conformity with its plans and policies, the functions of the Corporation would be: (1) to acquire and build godowns and warehouses at places of all-India importance; (2) to run licensed warehouses and to train for that purpose the requisite cadres and staff;

(3) to manage regulated markets at centres to which the Corporation's activities have extended; (4) to subscribe to the share capital of the State Warehousing Companies; (5) to act as agent of the National Co-operative Development and Warehousing Board; (6) to take up 'distribution' as agent of the Government of India or of State Governments; and (7) to issue debentures.

We would emphasize that what we are aiming at is a powerful agency charged with the task of carrying out the programme in the best interests of the rural producer. Monopoly of the services involved, e.g., storage, is not as a rule contemplated. There will, therefore, ordinarily be no compulsory acquisition of godowns and warehouses. Where, however, a godown or a warehouse is situated in a regulated market or other place notified in this context, the acquisition may be compulsory, but on payment of compensation etc. The same applies to the State Warehousing Companies and co-operative societies. We recommend that State Governments should promote the formation of regulated markets much more extensively than they have done so far; and that States which have not yet passed the necessary legislation should do so without delay. We further recommend that, where the All-India Corporation has extended its activities to the area of a regulated market—e.g., by establishing a warehouse or taking over an existing godown—the management of the market should automatically vest in the Corporation. This should be provided for in the law. The same applies to State Warehousing Companies in relation to regulated markets to which they have extended.

STATE WAREHOUSING COMPANIES

Share capital

14. Subject to necessary variations, the authorized share capital may normally be Rs 2 crores and the issued and paid-up share capital Rs 50 lakhs.

15. Not less than 50 per cent of the share capital should be subscribed by the All-India Warehousing Corporation on condition that the rest is subscribed by the State Government. The statute governing the National Co-operative Development and Warehousing Board and the All-India Warehousing

Corporation should contain a provision to enable the establishment of a State Warehousing Company in any particular State as soon as the State Government agrees to pay the stipulated part of the share capital of the Company. (As already indicated, the State Government can obtain a loan for the purpose from the National Co-operative Development and Warehousing Board.) There should be no other subscriptions to the share capital of the State Warehousing Company. It will be noticed that banks, insurance companies, certain joint-stock companies, forward markets, etc., automatically come into the picture through their being shareholders of the All-India Warehousing Corporation.

Board

16. There should be eleven members in all including the Chairman and the Managing Director. The Chairman should be nominated by the All-India Warehousing Corporation. In addition, the All-India Warehousing Corporation may nominate three members; one of them should usually be the local representative of the State Bank of India and one at least of the remaining, a non-official. Six members may be nominated by the State Government. These should ordinarily include the Registrar of Co-operative Societies (or Development Commissioner etc.), the Director of Agriculture (or an Agricultural Marketing Officer), the Chief Engineer (or other Senior Engineer) in charge of roads, and a representative of the State Transport Authority (if any) in the State. Of the remaining two, at least one should be a non-official co-operator. The Managing Director should be appointed by the All-India Warehousing Corporation in consultation with the Board of the State Warehousing Company.

Functions

17. The functions of the Company would be :
1. To acquire and build godowns at places other than those earmarked for the All-India Warehousing Corporation;
 2. To run licensed warehouses;
 3. To manage regulated markets at centres to which the Company's activities have extended;
 4. To act as agent of the All-India Warehousing Corporation;

5. To take up 'distribution' as agent of the Government of India, State Government or All-India Warehousing Corporation;
6. To subscribe to the share capital of co-operative societies concerned with storage or warehousing as their primary function or one of their primary functions;
7. To issue debentures;
8. To borrow from the National Co-operative Development and Warehousing Board or the All-India Warehousing Corporation or the State Government.

THE CO-OPERATIVES

18. It will be seen that the State Warehousing Company for its part will be in a position to subscribe to the share capital of co-operatives which take up warehousing as a primary function. The exercise of this power will provide one of the means of effecting co-ordination between the National and State parts of the programme and between both these and the rural part of the programme which is to be taken up by co-operatives. Broadly, we contemplate that the State Warehousing Company will have its godowns and warehouses up to the district and sub-divisional levels, and that the co-operative warehouses will be established in the smaller towns and the taluka headquarters (provided of course they are important from, e.g., a marketing point of view) and at other important marketing centres in the semi-urban and rural areas of the district. (This area-wise division of functions between the State Warehousing Company and the co-operatives should not, however, be interpreted literally or taken to be a rigid rule.) The programme contemplated can, at the rural end, be linked to the bigger villages by encouraging the co-operative societies in such villages to construct godowns, seed-stores, etc., in exercise of their multi-purpose functions. We also recommend that, where the State Warehousing Company has contributed to the share capital of a co-operative society, it will be open to the latter to replace or retire the share capital of the State Warehousing Company in accordance with a phased programme of replacement. This principle, however, should not operate in respect of godowns and warehouses at and above the sub-divisional and

district levels. At that stage, the State Warehousing Company should continue to hold not less than 51 per cent. of the share capital of the society in charge of the godown or warehouse.

Regulated markets

19. We would emphasize the very great need for ensuring that the management of regulated markets is not dominated by the influence of private trade, as today it is in many places, to the detriment of the rural producer. Hence our recommendation that, at those centres to which the All-India Corporation or the State Warehousing Company has extended its operations, the management of the regulated market should be statutorily entrusted to this institution. A local advisory committee may be appointed to assist the officer of the institution at such places. We further recommend that, as long as a regulated market continues to be managed as at present, i.e., by a market committee etc., under the existing law, provision should be made for the nomination on the committee of one or two representatives of the co-operative marketing and banking institutions, if any, of the locality. These should similarly be on the advisory committee wherever the new arrangement comes into force, i.e., when the regulated market has been taken over by the All-India Warehousing Corporation or the State Warehousing Company.

Training

20. The importance of making adequate arrangements for the training of the officers in charge of the godowns and in particular of the licensed warehouses, need hardly be emphasized. We consider that training classes for them should be organized in conjunction with the scheme for the establishment of training colleges for the supervisory and other staff of commercial banks. There should be co-ordination and collaboration, at all levels of training, between the National Co-operative Development and Warehousing Board and (1) the Central Committee for Co-operative Training and (2) the Advisory Council in charge of the Bankers Training College.

21. In regard to the immediate programme of the National Co-operative Development and Warehousing Board and its

auxiliaries, we invite attention to the fact that there is already a network of civil supplies godowns throughout the country. We consider that, as a first step, such of these godowns as may be found suitable for the purpose should be taken over from Government, or from their other owners, by the National Co-operative Development and Warehousing Board and a co-ordinated plan worked out into which these may be fitted. It is also possible that the staff engaged for several years in the civil supplies departments of different States, a large part of which is in the process of being thrown out of employment on the accomplishment of decontrol, contains a fair number of persons whose experience may be suitably made use of by the All-India Warehousing Corporation, the State Warehousing Companies, etc., at different levels of operation. All this implies that the organization should be set going even before the National Co-operative Development and Warehousing Board, the All-India Warehousing Corporation, etc., are statutorily established.

22. An important feature of our scheme is the provision for subsidies being given, where needed, by the National Co-operative Development and Warehousing Board to the All-India Warehousing Corporation and the other auxiliaries including the co-operative societies. Owing to the high cost of constructing godowns and warehouses, an element of subsidy may be necessary in many instances for appreciable progress to be possible. The subsidies should of course be given only where, and to the extent that, they are demonstrably necessary; further, in individual instances, they may be restricted to a specified number of years. Once the uneconomic element in the cost has thus been provided for, it should be the aim of the All-India Warehousing Corporation, State Warehousing Companies, etc., to organize and conduct warehousing and distribution as a purely business concern.

23. We have elsewhere pointed out the usefulness to Government of a network of godowns and warehouses for a policy of price support or of price control.

THE CO-OPERATIVE AGENCY (I, APEX AND CENTRAL): RECOMMENDATIONS

OUR recommendations concerning the co-operative agency will be found partly in this chapter and partly in Chapters 29 and 30. Those specially relevant to the higher levels of the structure are included here.

THE SYSTEM AS A WHOLE

Reorganization

2. We have explained why we believe that State partnership provides an appropriate basis for the type of reorganization needed. At the apex and central levels, the aim of State partnership should be to provide adequate, stable and powerful support to the primary society. The State should be the major partner; and it should remain a partner for as long as necessary. At the apex level, the State Government would directly contribute to the share capital of the institutions concerned. At the district level, the State partnership would be through the apex institutions; in this instance, the State Government would provide funds (e.g., in the shape of additional share capital) to the apex institutions to enable them to contribute to the share capital of the institutions at the district level. At the primary level also, State participation would be indirect; it would take the form of similar contributions to the apex institutions to enable them to provide funds to the organizations at the district level, which in turn would contribute to the share capital of the institutions at the primary level. In certain cases, e.g., marketing and processing societies, State partnership (as will be seen later) might be direct at all levels.

3. We recommend that each State Government should, as early as possible, draw up in consultation with the Reserve Bank (or, as the case may be, the National Co-operative

Development and Warehousing Board) a phased programme for the reorganization, on the basis of State partnership, of its co-operative institutions—short-term credit, long-term credit, marketing, processing, milk supply, dairying, etc.—at all levels: apex, central and primary. The programme should provide for each of these institutions having an initial minimum level of share capital which, over a period of years, will be raised to the optimum level. At the apex and central levels invariably (and at the primary level generally) not less than 51 per cent of the share capital of these institutions should be held by, or derived from, the State Government in the manner described above; the percentage may have to be more than this, if contributions from the co-operatives etc., do not, together with Government's 51 per cent, come up to the initial minimum level. Another possibility is that, as long as the process of increase from minimum to optimum goes on, Government may have to make additional contributions, directly or indirectly, in order to maintain the level of its partnership at 51 per cent.

Until the optimum level is reached, it should be obligatory on members to increase their shareholding in conformity with the detailed requirements of the programme as worked out. Such compulsory contributions would first be for increasing the level of share capital from the minimum to the optimum. In the case of marketing and processing societies, the compulsory contributions from members should be fixed as a percentage of the turnover of the sales made through the society by each member; alternatively, they should be related to the size of the loan taken by the member from, e.g., a credit society with which the operations of the marketing or processing society are co-ordinated. Even after the optimum level of share capital is reached, compulsory contributions should continue for the purpose of 'retiring' the State or state-derived contribution to share capital in the following manner.

The objective, at the rural base, that is, where the larger-sized primary agricultural credit society and all other societies at the primary level are concerned, will be to retire the whole of the state-derived contribution to share capital within a period of time to be fixed after taking into account all the circumstances, so that at the end of that period the societies at the primary level become fully co-operative. At the apex and

central levels, however, replacement of state-derived share capital would proceed until it is reduced to 51 per cent, but not beyond that, so that the major partnership of the State will be retained for as long a time as necessary to enable the institutions at this level to give strong and effective support to the rural societies.

Reform

4. We recommend that so far as agricultural producers are concerned, it should be the endeavour of the co-operative credit society (which hereafter will receive the requisite support from the State through a form of partnership with it which may be either direct or indirect) to cover as large a proportion of the population within as short a time as possible. We recommend that there should be legal provision for a right of appeal against non-admission to the Registrar of Co-operative Societies. There is every justification for such right of appeal if we remember the need to ensure that the benefits of membership are not confined to a relatively small coterie of the powerful, the influential and the propertied in each village. How the cultivator, as producer and not owner, can be provided credit on the basis of his produce, has already been mentioned at more than one place and will be dealt with in the next chapter in connexion with the subject of 'crop loans'. Here it need only be recalled that we have described that system as one in which (1) production is the main purpose of the arrangements for finance; (2) short-term loans are given on the basis that a crop is anticipated, not primarily that a title exists; (3) the loans are related in amount to the estimated outlay on raising the crop; and (4) the recoveries are made, as and when the crop is sold, from the proceeds of the sale.

5. We would emphasize that the subsistence needs of the agricultural producer—as distinguished from specific 'consumption' needs connected with marriages, funerals, etc.—should be treated as needs which may be legitimately fulfilled, and ought to be effectively fulfilled, by the system of productive finance here recommended. Such needs will be automatically covered if the quantum of crop loans—at so much per acre of the particular crop cultivated—is properly fixed

for each area after taking into account all the relevant considerations.

6. The present arrangements are even less satisfactory for village handicraftsmen. We have already noted that the credit arrangements for these should be part of the normal co-operative credit system and that Government should, where needed, provide adequate guarantees to enable the system to undertake this work. Apart from production credit, it is necessary to provide for specific 'consumption' needs of these persons (this applies also to agricultural producers). Reference is invited in this context to Chapter 19 where the idea of a chit fund has been elaborated. Loans in respect of marriages, illnesses, funerals, etc., should be made available in the manner there suggested.

Co-ordination

7. It is of great importance to ensure that the different components of the superstructure of co-operative credit function in co-ordination with one another; by and large, such co-ordination is now lacking. In this context, short-term agricultural loans may be defined as those limited to 15 months, medium-term agricultural loans as ranging from 15 months to 5 years and long-term agricultural loans as extending beyond 5 years. At the apex level, short-term loans should continue, as at present, to be provided through state co-operative banks. Medium-term loans should also be the responsibility of the short-term co-operative credit structure; special attention should be paid to loans for the purchase of livestock, which, as shown by the Survey, are an important medium-term requirement in many parts of the country. Long-term loans should be provided by land mortgage banks.

8. We recommend that, while the state co-operative bank and the central land mortgage bank should continue to remain separate entities for legal and financial purposes, direction and management should be common to the farthest extent possible and the same administrative staff operate under the two types of institutions. Thus, the state co-operative bank and the central land mortgage bank should have a common board of directors, a common administrative machinery and a common

building to house them. If it is not practicable to have a common board of directors, at least some of the directors should be common to both. This recommendation applies in particular to States where either state co-operative banks or central land mortgage banks have to be newly established. Other States should, as far as possible, attempt to modify existing arrangements in approximation to this model.

Stabilization

9. Complementary to the recommended establishment of a National Agricultural Credit (Stabilization) Fund in the Reserve Bank is the need to institute individual Agricultural Credit Stabilization Funds of their own by state co-operative banks, central banks and, wherever feasible, also by the larger-sized primary agricultural credit societies. As regards the building up of such Funds, we recommend that the dividend in excess of a prescribed level, say, 3 per cent, paid on the shares held by Government (either directly or through the apex and central banks) should in part be credited to this Fund. (We have elsewhere recommended that the other part should be earmarked for the Agricultural Credit (Relief and Guarantee) Fund.) In addition, there should be compulsory deductions from the dividends payable to other shareholders. These deductions may be equivalent to the excess above a prescribed level of dividend, such level being slightly higher for ordinary shareholders than that fixed for the State Government or for the apex and central banks.

It is not intended that the facility of conversion of short-term to medium-term accommodation should cover types of dislocation of credit arising from inefficiency, mismanagement or fraud in the institutions concerned. Nor, of course, should it be made available in conditions in which no amount of assistance of this kind can save the institution from liquidation. Where necessary, a condition may be imposed that the institution should effect such changes in its management or lending policies as may be stipulated by the central bank or the apex bank (if the facility is offered out of their respective Funds without approach to the next higher level) or, in the last resort, by the Reserve Bank where help is accorded out of the National Agricultural Credit (Stabilization) Fund.

STATE CO-OPERATIVE BANKS

Membership

10. The membership of the state co-operative bank should be open to all central banks and such other co-operative credit institutions as have direct dealings with it (e.g., primary agricultural credit societies in the areas, if any, in which the apex bank functions, through its branches, as a central financing agency). A strictly limited number of individuals may be allowed to become members.

Directorate

11. Even though one implication of major State participation might, in rigid logic, be held to be that the major voting power should also vest in Government, we consider that, ordinarily, Government should not be allotted more than a third of the seats on the directorate for nomination of its representatives. This recommendation applies to all co-operative institutions in which Government is the major shareholder. At the same time, Government should, on certain specified matters, have over-riding powers, for example, power to reverse or modify decisions on those matters, or power to impose decisions of its own in so far as they are relatable to those items. These reserve or special powers of Government, arising from its position as major partner, may in a few instances coincide with, but in all other instances should, in principle, be kept separate from, the powers of Government and the Registrar arising from the normal provisions of the Co-operative Societies' Acts. The matters to which these powers should be related fall broadly under two categories: (1) the soundness of financial policies and (2) the larger objectives of loaning policies, for example, linking of loans to production, or making a large amount of credit available to the medium and small producer. Detailed items under these heads would have to be worked out, in the light of local conditions and features, for each state co-operative bank. The nominees of Government should include the Registrar of Co-operative Societies and, ordinarily, a representative of the finance department and a banking or financial expert. Special care should be taken in the selection of the chief executive of the bank (managing director or manager). His appointment should be subject to the approval of Government.

Share capital

12. In addition to accretion to share capital through partnership of the State, there are two methods of increasing share capital which we would suggest for adoption wherever appropriate: (1) to insist on member central banks and societies subscribing to the share capital an amount that is a prescribed proportion of their own share capital and (2) to relate the borrowing of members to their shareholding. These devices, however, should not be adopted to the detriment of the major objectives of policy.

13. The constitution of state co-operative banks should provide for their being able to contribute to the share capital of central banks.

Loan operations

14. In the loan operations of state co-operative banks, the demands for agricultural credit should receive the first priority. Financing of traders, merchants and other 'individuals' should be curtailed, if necessary by stages, but as speedily as possible and eventually given up. Loans to individuals should be given only to a very limited extent, e.g., against their fixed deposits with the bank. We also deprecate the tendency on the part of some state co-operative banks to give long-term loans out of short-term resources.

15. In conclusion, we expect the state co-operative banks, after reorganization, to function as real pivots of the Movement. They should establish close contacts with their member banks as also with the agricultural credit societies at the base. The apex bank should be made the custodian of the surplus resources of the co-operative banking system; for this purpose all co-operative central financing agencies should be statutorily required to invest their surplus funds in the apex bank.

CENTRAL LAND MORTGAGE BANKS

General

16. We recommend that each State should have a central land mortgage bank. State Governments should at the same

time review their tenure and tenancy laws and take steps to eliminate such features in these laws as, without being essential to policy, are hindrances to the development of a simple and effective system of land mortgage banking. Briefly, where land reforms necessitate restrictions on the mortgaging of title, the scope of such restrictions should be the minimum necessary. Thus selective mortgages—e.g., to co-operative societies and to Governments—could be made permissible. Any special procedure for registration of mortgages under the land reform acts (and indeed the general procedure itself for registration of mortgages on land) should be made simple, cheap and expeditious. Similarly, the provisions of the law should ensure that the title passed is as clear and as secure as possible.

Share capital

17. So far as central land mortgage banks are concerned, the proportion of share capital to be contributed by Government, while subject to a minimum of 51 per cent, might have to be of a much larger proportion than in the case of apex banks or central banks. This is because the programme of land development, in the context of the plan for increase of agricultural production, is so considerable on the one hand, and the availability, through institutional channels, of medium and long-term credit for such development so insignificant on the other, that strong central (and primary) land mortgage banks are one of the foremost needs of the country's agricultural development today.

18. The constitution of central land mortgage banks should provide for their being able to contribute to the share capital of primary land mortgage banks.

Changes in loan policies

19. The overwhelming majority of the loans advanced by land mortgage banks have been for the repayment of prior debts and redemption of mortgages on land. It is necessary for land mortgage banks to align themselves to a positive policy of giving loans for land improvement and development including purposes such as bunding, digging of wells and acquisition of pumps, agricultural machinery, etc. A simple and obvious first

step towards increasing the number of productive loans is to give first priority to applications for loans for improvement, reclamation and development of land, purchase of agricultural machinery and equipment, and similar productive purposes. Primary land mortgage banks should be told that applications for loans for improvement of land and other productive purposes should be taken up first.

20. Along with the encouragement of productive loans should go the discouragement, not necessarily of all non-productive loans, but certainly of non-productive loans of low priority. Thus, applications for loans should not be entertained when the loans sought are found, on investigation, to be of this description. Further, applications for loans for amounts above a specified figure, say, Rs 5,000 should not be entertained unless the loan is for agricultural development. Supervisors of primary land mortgage banks should be instructed to visit villages with the specific object of popularizing loans for land improvement and asked to maintain a separate diary of their activities which should be checked by the central land mortgage bank's inspector.

21. If the policies and operations of the central land mortgage banks are to be oriented to increased agricultural production, it is necessary to keep in mind three organizational needs: co-ordination of credit with planned agricultural development, assessment of technical soundness of the project in respect of which credit has been asked for, and verification of the actual utilization of credit. Administratively, these requirements will imply a variety of modifications in the present system, e.g., (1) the adoption of techniques for making known the scheme of credit and the procedure for obtaining loans to intending borrowers in the particular area; (2) close co-ordination with the appropriate departments of Government—agriculture, public works department, etc.—and their district staff; and (3) expansion (and where necessary specialization) of the staff of the central and primary land mortgage banks, especially for the purpose of supervision.

We attach very great importance to the employment by land mortgage banks of adequate and trained supervisory staff

because of the need to ensure that the credit provided is utilized for the particular productive purpose for which it is intended. The improvements should be supervised from stage to stage during the execution of the project and the loan disbursed in instalments after each such supervision. In this matter, attempts should be made wherever feasible to bring about co-ordination between the supervisory staff of state co-operative banks and of central land mortgage banks.

22. Apart from the question of supervisory personnel, there are other requisites for the success of a scheme of land improvement. In the first place, land mortgage banks cannot under their existing rules lend more than a percentage of the existing value of the land as distinguished from value after improvement. Further, there is the important question of title and the steps to be taken to ensure that it vests unambiguously in the bank which finances the improvement.

As regards the first question, the point is that lands are not sufficiently valuable before the improvements are effected and, on this basis, the amount of finance which land mortgage banks can provide under their existing rules of valuation may often be inadequate. The need accordingly arises for some form of guarantee to cover the difference between the value before and after improvement. This guarantee can only come from Government; it will have to be for a specified period and cover the difference between the two values, namely, value before and after improvement. The guarantee will of course lapse when the improvements have been effected. Meanwhile, the potential risk to Government can to a very great extent be minimized by effective supervision.

Since doubts regarding title tend to delay the sanction of loans, it is of importance to ensure, wherever this can be done without infringing wider principles of law, that a mortgage to the bank has the effect of the title being unambiguously vested in it. We recommend that the State Governments should take suitable steps for this purpose, including amendment of the relevant law to the extent possible. Further, we consider that primary land mortgage banks will fulfil an extremely useful function if they are in a position to guarantee the repayment of the loan to the central land mortgage bank in the event of a dispute regarding title. Such a guarantee will facilitate the

expeditious disbursement of a productive loan, since the disbursement can take place after a preliminary investigation of title but before final examination and decision as to its legal validity. The guarantee will cease when the title is found to be in order. In this manner, and with the safeguards mentioned above, productive loans can be disbursed 'prematurely'. In order that it may be able to provide the necessary guarantee, we recommend that each primary land mortgage bank should constitute a guarantee fund of, say, Rs 25,000 to start with. This should be deposited with the central land mortgage bank. We further recommend that the State Government should, on behalf of the primary land mortgage banks, initially provide a sum of Rs 5 lakhs to the central land mortgage bank for enabling it to create the necessary guarantee funds for its primary land mortgage banks.

23. We suggest that the scheme of productive loans outlined above may be tried, in the first instance, in the areas which have been newly brought under irrigation and those which are to be newly irrigated, as well as in some of the Community Project Areas. We recommend that land mortgage banks should be recognized as Government's agency for the distribution of productive long-term loans in areas newly brought under irrigation, wherever such a step is practicable. This implies that Government funds should also be channelled through these banks and not, in the traditional manner, through the revenue department.

24. There are also a few other aspects of the association of credit with production and land improvement to which we would invite attention. One is the duration of such credit. At present, as noted elsewhere, land mortgage banks design their loans for 15 or 20 years in almost routine fashion. This practice should be revised and the period of repayment of loans for land improvement and production related to the purposes of the loans, different periods being prescribed for different categories of purposes.

25. Another point to which we would invite attention is that land mortgage banks have often to give second and third loans

to the borrowers even though it was expected that, with the loans taken from them, the borrower would clear off all his outside debts. In theory, these loans are meant for development of land, but as a matter of practice, they are generally available for any one of the various purposes for which the first loans could be sanctioned. The practice itself is clearly undesirable. Land mortgage banks should regulate their second and third loans in regard to purpose, amount, period and interest in such a manner as to exert a beneficial influence on the borrower and hold in check any tendency on his part to borrow frequently. They should provide such loans for productive purposes only. The rates of interest on such loans may be slightly higher than on first loans; further, a limit may be imposed on the total amount that can be thus borrowed.

26. An important question relates to the debentures issued by central land mortgage banks. We recommend that, in keeping with a policy of providing loans of varying periods for agricultural development, central land mortgage banks should issue debentures for varying periods—e.g., 5, 10, 15 or 20 years—in conformity with the purposes of the loans. In addition to debentures of these types which are primarily meant for urban institutions, but with the period and other terms suitably altered to fit in with the requirements of rural investment, we recommend that land mortgage banks should introduce 'rural debentures'. Our suggestions regarding these will be found in Chapter 34.

We also recommend that the Reserve Bank and the State Bank should take positive steps for the creation of an effective market for the debentures of land mortgage banks. We have referred to 'special development debentures' for land improvement in Chapter 25; these are to be purchased in whole or in part by the Reserve Bank which for the purpose will draw upon the National Agricultural Credit (Long-term Operations) Fund.

Some forms of State aid

27. Apart from major State participation in share capital and guarantee in respect of production loans, land mortgage banks will require other forms of aid and assistance from the State

Government. Including various facilities which are already afforded, we recommend:

1. Guaranteeing the debentures of central land mortgage banks as regards both principal and interest;
2. Provision of staff for valuation of land and examination of schemes of land improvement, assessing their technical soundness, etc.;
3. Provision of overdraft facilities to enable land mortgage banks to provide loans until they are in a position to get a fairly large volume of mortgages on the security of which they can float debentures;
4. Exemption from stamp duty, registration fees, etc.;
5. Enactment of special legislation (i.e., a separate land mortgage bank act) for facilitating the working of land mortgage banks in the State. Such legislation should, among other things, provide for a simple and elastic procedure which would enable land mortgage banks to recover defaulted loans expeditiously;
6. Government should give special assistance to land mortgage banks in the undeveloped areas, with reference to their administrative costs, in order to prevent their running at a loss.

STATE CO-OPERATIVE MARKETING SOCIETIES

General

28. As soon as the relevant development at the primary and other stages makes this appropriate, state co-operative marketing societies should be set up in the several States. Such societies would form the apex of a federal co-operative marketing structure. Where they now exist, state marketing societies are usually weak and ineffectual; they have little organic connexion with the corresponding institutions (if any) below. The reorganization of existing state co-operative marketing societies in a suitable manner in certain States is just as necessary as the establishment of new ones at the appropriate stage in other States.

29. Further, in the state co-operative marketing societies to be newly established, no individual should be admitted as a

member; the society should function as a pure federation of co-operative marketing societies at the district and primary levels. As regards the existing state co-operative marketing societies, immediate action should be taken to ensure that their managing boards are preponderantly representative of societies and not individuals; the next step should be the complete elimination of individuals from membership.

30. The risks associated with trading make it imperative that state co-operative marketing societies should financially, legally and even administratively be quite distinct from the corresponding state co-operative banks. Nevertheless, proximity, frequent consultation and exchange of information and above all the sharing of common programmes and policies, so that marketing and credit may develop together and strengthen each other in the same areas of operation, are all points to be borne in mind in regard to the relationship between the marketing and credit aspects of the co-operative structure envisaged in these recommendations.

Functions

31. The main functions of the state marketing societies as well as of the district marketing societies and the primary marketing societies, which together form the federated structure, should be: (1) marketing of crops; (2) distribution of goods which the cultivator needs as producer, e.g., fertilizers, agricultural implements, etc.; (3) distribution of certain basic but standardized requirements which the cultivator needs as consumer, e.g., sugar, kerosene, matches, etc.; and (4) certain developmental functions, e.g., construction of godowns and warehouses.

State partnership

32. Major State partnership is as necessary in this case as in that of credit. There should be State participation in the share capital of marketing societies—this also applies to processing societies, dairying societies, etc.—from the apex to the primary level, at not less than 51 per cent and for an indefinite period, on the lines already indicated in regard to the credit structure. It may be noted that we have recommended in regard to marketing societies, processing societies, etc., that there should

be a compulsory contribution to share capital by each member of the society, the amount of such contribution being related, for instance, to the turnover of a member's sales through the society or to the size of the loan taken by the member from, e.g., a related credit society.

33. Apart from normal administration on the one hand, and the special provision of part of the share capital on the other, an extremely important duty of the State Government will be to provide the services of trained technical men to societies connected with marketing, processing and other economic activities. Programmes for the state-wise organization and development of such societies should be drawn up by the State Governments in conjunction with the National Co-operative Development and Warehousing Board, and the training of personnel proceeded with in the light of such programmes.

34. The important item of development of storage (godowns and warehouses) has already been dealt with in Chapter 27. We have recommended in that chapter that various steps should be taken by Government for the promotion of co-operative processing societies etc. It was mentioned that State Governments should take steps to license all plants, factories and mills (other than at the cottage industry level) which are engaged in the processing of agricultural commodities or in related activities. In this context, it is further recommended that, before issuing a licence for a new plant, factory or mill in any particular area, Government should ascertain whether any existing co-operative society or one likely to be formed is both willing and in a position to take up the work. In that case, the licence should be issued to the society and not to the private party.

CENTRAL CO-OPERATIVE BANKS

Preliminary issues

35. The recommendations made so far deal with co-operative organizations at the apex level. Turning now to the district level, there are three preliminary matters which have to be considered. In the first place, what would be the more appropriate co-operative credit agency at the district level: a branch of the

state co-operative bank or a central bank? Secondly, should this agency, whether it is the branch of the apex bank or the central bank, also deal with long-term credit? Thirdly, is it necessary to have central banks at all in States which are relatively small in size?

36. As regards the first question, we are in agreement with the view of the Reserve Bank's Standing Advisory Committee on Agricultural Credit that :

“Other things being equal—in regard to finance, local support, administrative efficiency, etc.—the establishment of a central bank should be preferred to that of a branch of the state co-operative bank. In areas which are relatively undeveloped in the economic and co-operative aspects, the proper course is likely, in many cases, to be to establish branches of the apex banks with such financial assistance from the State Government as may be necessary. In such instances, the policy should be that of eventually replacing the branch by a full-fledged central bank.”

37. As regards the second question, viz., whether the credit agency at the district level should deal with long-term credit also, it is necessary to bear in mind that the central land mortgage bank at the apex of the long-term credit structure of the State can operate only if there is a corresponding machinery at the district headquarters and below. In a State like Madras, for example, which is relatively developed in this respect, this machinery is provided by primary land mortgage banks. The establishment of such banks in the different States is likely to take an unduly long time. Until such time as a primary land mortgage bank can be established in a particular area, the lines of organization of long-term credit which we would recommend are as follows.

The central land mortgage bank should, in the first instance, operate in the district through a ‘section’ of the central bank or the branch of the state co-operative bank, the transactions being kept entirely distinct and the section functioning as an agent of the central land mortgage bank for the disbursement of long-term loans to individual agriculturist borrowers, all of whom will have to be direct members of the central land mort-

gage bank. When the long-term loans are sufficiently numerous and the size of business, actual and potential, represents the minimum necessary for the economic working of a separate branch, the section may be converted into a branch of the central land mortgage bank. To ensure co-ordination between the short-term and long-term credit structures, the branch should continue to be located in the same building as the central bank. The third and final stage would come when, in course of time, the business expands much farther and groups of borrowers are prepared to form primary land mortgage banks. The branch of the central land mortgage bank could then, if appropriate, be converted into a primary land mortgage bank. Nevertheless, it would continue to be situated in the same building and remain co-ordinated in its working with the central co-operative bank.

38. Finally, as regards the third point, viz., the need for central banks in States which are relatively small in size, our view is that in such States, the state co-operative bank can deal direct with the primary agricultural credit societies at the rural base.

General

39. In many ways, the position of central co-operative banks is of crucial importance in the co-operative credit structure. At the same time, the central banks in most States are extremely unsatisfactory institutions. It is, therefore, important to draw up for each State plans for the rationalization and strengthening of central co-operative banks in several of their aspects including the financial and the administrative.

40. We are in agreement with the opinion expressed by the Reserve Bank's Standing Advisory Committee on Agricultural Credit that, ordinarily, there should be only one central bank for each district. If, however, in a particular area, financial and other conditions justify the formation of a bank for a region smaller than a district, there should be no objection to this; the same consideration applies of course to such of the existing central banks as happen to serve relatively prosperous areas which, though each of them may be smaller than a district,

nevertheless provide enough business to render the central bank an 'economic' unit. That, however, in several States, is far from being the case. In all such instances, the amalgamation of the smaller units into one strong unit for the area (normally a district) should be kept unambiguously in mind as the desired objective, a plan of amalgamation drawn up for the area, and the plan vigorously pursued. Central banks which refuse to co-operate in the plan should be disaffiliated from the state co-operative bank and denied all privileges by the administration. Major State partnership (through the state co-operative banks) in the reorganized central co-operative banks will be a powerful weapon in this context.

As tentative 'minimum standards' of owned capital and working capital for economic central banks, we endorse the criteria suggested by the Reserve Bank's Standing Advisory Committee, viz., paid-up share capital and reserves of about Rs 3 lakhs and working capital of Rs 20 to 25 lakhs.

Administration

41. The boards of management of some of the central banks are unwieldy in size and contain a disproportionate representation of 'individuals' as distinguished from societies. It should be possible to remedy these defects quickly and effectively under the scheme of major State partnership. In this case too, State partnership should not imply the nomination of more than a third of the directors by the state co-operative bank. As with state co-operative banks, Government should have special powers to reverse particular decisions of the bank, as also to impose certain decisions, on items falling within the categories of policy already specified. Further, as suggested in Chapter 26, in so far as state-partnered co-operative banking institutions at district headquarters are concerned, the local agent of the State Bank of India should invariably be nominated as one of the members of the board of the particular central co-operative bank.

42. Some of the central banks have officials as chairmen. We consider that this should be the exception and not the rule. Every effort should be made for enlisting the association of suitable non-official co-operators as chairmen of state co-operative banks, central co-operative banks, etc.

Share capital

43. We have already emphasized that State partnership (through the state co-operative banks) in the share capital of central co-operative banks, at a level not below 51 per cent, should continue for an indefinite period. Provision should be made for the investment by member societies of prescribed amounts in the share capital of the central bank, such amounts being related to the share capital of the society itself as a specified proportion thereof. Further, the amounts which societies may borrow from the central bank may be linked to the amount of shares held by them in the central bank as a multiple thereof. In neither case however should the requirement be pressed to the point of compromising major objectives of policy.

44. The constitution of central banks should provide for the possibility of their contributing to the share capital of primary agricultural credit societies.

Reserve Fund

45. As important as the need for adequate share capital is that for adequate reserves. We trust this will engage from time to time the most careful attention of co-operative departments and of the directorates of central banks.

Financial operations

46. It is of the utmost importance that the central banks should give first priority to the requirements of agricultural credit societies. Loans to individuals should be rigidly restricted. They might, for example, be confined to advances against fixed deposits. Loans to merchants and traders, wherever now given, should be eliminated within the shortest period possible.

47. Subject to the fulfilment of certain prerequisites such as the existence of arrangements for safe custody and for proper valuation, central financing agencies (i.e., central banks and their branches or branches of the state co-operative bank) may issue loans on the pledge of gold and jewellery or against approved securities. (This recommendation is applicable to selected larger-sized primary agricultural credit societies also.)

48. Individual agriculturists may be admitted as members of central banks as a purely transitional arrangement, pending establishment of co-operative societies in the areas concerned. So far as the land mortgage section of the central bank is concerned, the membership of such agriculturists will pertain direct to the central land mortgage bank with which, however, their dealings will be through the central bank until such time as a branch of the central land mortgage bank (and later perhaps a separate primary land mortgage bank) is formed.

49. We cannot too strongly deprecate the practice which has developed during and after the last war, and which in some cases still survives, of the central banks taking up trading activities, possibly at the behest of Government, but certainly at risk to their depositors. No central bank should engage in trading activities.

Margins

50. Wherever the 'margin' kept by a central bank is unduly high, the operations of the institution should come under the special scrutiny of the Registrar and of the inspection organization of the Reserve Bank.

Relations with primaries

51. The central banks should build up close and continuous contacts with the primary agricultural credit societies, be sympathetic and responsive to their needs and difficulties and endeavour to assist them to the best of their capacity.

The sub-divisional level

52. It may be remembered that we explained in Chapter 26 that for the effective linking of the higher levels of the co-operative credit structure with the societies at the primary level, it was necessary that the co-operative financing agency at the headquarters should have branches at some intermediate level between the village and the district headquarters, such branches being sought to be established at least at sub-divisional centres to start with and thereafter at other suitable places. We would emphasize that this observation is of particular application to those States in which the co-operative

credit structure has not yet reached a fair degree of development. As contrasted with these, there are of course certain States in which the branch expansion of co-operative banks has already, in varying degrees, proceeded beyond the subdivisional level; for obvious reasons, the relevant recommendations made in Chapter 26 do not apply in their entirety to such States.

URBAN BANKS

53. It will be convenient to make a brief reference here to urban co-operative banks which have made appreciable progress in some States, especially in Bombay and Madras. Many urban banks are situated in small towns and to some extent, serve the credit needs of the agricultural population in and around them. Further, in some States, urban banks are allowed to deal with rural societies in the absence of a central bank for the area.

54. Our recommendations in regard to urban banks are as follows:

1. In areas where central banks or branches of the apex bank are not functioning, urban banks may be allowed to finance rural societies as a transitional measure.

2. In the matter of loans against pledge of gold and agricultural produce, urban banks may be allowed to extend their sphere of operations to villages within a radius of five miles of the area of the towns in which they are located, provided there are no primary agricultural credit societies in the villages concerned. The granting of loans by urban banks against agricultural produce should be allowed only in areas where co-operative marketing societies are not functioning.

3. We endorse the following recommendation of the Fifteenth Registrars' Conference (1947): "... the surplus funds of urban banks should ordinarily be invested in provincial and central co-operative banks to enable them to finance co-operative societies. Where such investment is not necessary, the Conference recommends that urban banks may be empowered to invest 15 per cent of their surplus funds

after providing for fluid resources in such manner as their boards may unanimously decide and in accordance with such terms as the Provincial Government may lay down."

DISTRICT MARKETING SOCIETIES

55. The following recommendations relate to co-operative marketing societies at the district level:

1. District marketing societies may be formed either on a territorial or on a commodity basis according to local conditions.

2. There should be a minimum and an optimum level of share capital for each district marketing society. The State Government should hold at least 51 per cent of the share capital of such societies. There will be compulsory contributions from members, in the shape for instance of compulsory deductions in proportion to the turnover of their sales, with a view to increasing the share capital to the optimum level, and thereafter in order to retire the State's part of the share capital until it stands at 51 per cent of the total. Well-organized district co-operative marketing societies may, according to their situation, find it possible to operate also as societies for the processing of agricultural commodities.

3. The State Government should make available the services of suitable technical staff to district co-operative marketing societies.

56. Our recommendations in respect of district co-operative marketing societies also apply *mutatis mutandis* to certain other forms of co-operative organization of economic activity and in particular to co-operative processing societies.

THE CO-OPERATIVE AGENCY (II PRIMARY) : RECOMMENDATIONS

THE most basic part of the programme of co-operative development is that which relates to the reorganization of the primary society, in particular the agricultural credit society. Our recommendations concerning the lines of such reorganization are contained in this chapter.

AGRICULTURAL CREDIT SOCIETIES

Size

2. It is our considered view that the formula 'one society to one village and one village to one society' has failed in India as the basis for the organization of co-operative rural credit because its underlying assumptions have proved incorrect. Those assumptions were that mutual knowledge would help to determine, and honorary service help to operate, credit; that the first would be most effectively present, and the second most effectively developed, within the confines of one village. In actual fact, as we have already seen, the compactness of size has not been accompanied by any of these other features. Their presence would have invested it with real significance; but, divorced from them, it has only served to come in the way of alternative courses of reorganization such as the replacement at the primary base of 'honorary services' by competent paid staff and of small uneconomic turnover by larger units of business. For these reasons, we recommend that the future line of development of co-operative credit at the level of the village should be unhesitatingly in the direction of bigger societies covering larger areas. In other words, primary agricultural credit societies should hereafter be established (and wherever necessary, and as and when suitable, existing ones reorganized) so as to cover, according to local conditions, groups of villages with a reasonably large membership and a reasonably adequate

share capital. The headquarters of the larger-sized primary credit society, new or reorganized, should be conveniently located for the people of the villages comprised in its jurisdiction. If there is a marketing centre in the area it should, if possible, be located at that centre. As a rule, the area of operation of the society should be such as to provide it with adequate business.

• Reorganization of existing societies should be attempted only where necessary and as and when this can be suitably done, i.e., without considerable dislocation. A phased programme of reorganization, confined to contiguous societies which would gain by amalgamation, would therefore be appropriate. In regard, however, to fresh registrations of primary agricultural credit societies, the model adopted in regard to size etc., should, by preference and to the maximum extent possible, be the larger-sized society here recommended. In particular, there should be a concerted drive to organize such societies in selected areas such as those in which Community Projects or National Extension Service Blocks have been in operation or are about to be established.

In the following paragraphs are indicated the features we consider appropriate for the larger-sized primary agricultural credit society. Some of the suggestions, as will be seen, are applicable to all agricultural credit societies and not merely the larger-sized ones.

Membership

3. The membership of agricultural credit societies in general, larger-sized or small, should be open to all persons residing in the areas of their operations. Further, as recommended in the previous chapter, a person who is refused admission to the society should have the right to appeal to the Registrar of Co-operative Societies.

Liability

4. The larger-sized primary agricultural credit society should be established on the basis of limited liability because of the bigger area of operation, the larger coverage of classes of cultivators and, generally, the wider sphere of activities. The liability of the members may be limited to the value of shares held by them or, preferably, to a certain multiple thereof.

Share capital

5. Each of the larger-sized societies should have an initial minimum level of share capital which should be raised, in a specified period, to an optimum level. The central bank should initially contribute to the society whatever amount is necessary for ensuring that the total share capital is not below the minimum level. For this purpose, the State Government should make the needed finance available to the state co-operative bank (e.g., in the shape of additional share capital) to enable it to provide funds to the central co-operative bank. Until the optimum level is reached, there should be compulsory contributions from members together with proportionate contribution by Government through the state co-operative bank and central banks. After the optimum level is reached, the contributions derived from Government should cease; but compulsory contributions from members should continue for the specific purpose of retiring the whole of the government-derived contribution within a suitable period, so that at the end of it these societies would be fully co-operative even in the orthodox sense of the term. Contributions and retirement should proceed on a planned basis. The shares of the society should be of suitably small denominations.

Members' deposits

6. As a rule, only fixed deposits should be accepted by the primary agricultural credit societies, and current deposits confined to the apex and central banks and their branches. In selected instances, however, a primary society may be permitted to operate savings accounts, and accept deposits for the purpose, on behalf of the bank to which it is affiliated. It should be paid suitable commission for its work as agent.

Societies' deposits

7. Agricultural credit societies in general should be encouraged to deposit their funds with central banks. The latter may, where appropriate, consider the desirability of paying on such deposits a rate of interest which is slightly higher than the normal rate.

Reserves

8. There should be annual allocations to reserves out of profits. This is especially important if primary agricultura

credit societies generally, and the larger-sized ones in particular, are eventually to inspire enough confidence to be able to attract adequate deposits.

Borrowing limits

9. The maximum borrowing limit of the larger-sized primary agricultural credit societies should be fixed at a certain multiple of their paid-up share capital and reserves.

Loan operations

10. In regard to loan operations, our emphasis is on crop loans, of which the need and the characteristics we have already mentioned. Some of the details are dealt with here.

There are various precautions which it is possible to take, and which should be taken, in working the system of crop loans. Some of them may be mentioned. In the first place, the amount of the crop loan should be so fixed as to be an adequate proportion of the cash outlay per acre of crops. On that basis it will also of course, in the bulk of cases, bear a reasonable relation to the value of the crop. Secondly, wherever appropriate, the loans may be given in suitable instalments instead of as a lump sum at the start. Thirdly, the loans should be in kind to the maximum extent possible. Fourthly, certain legal safeguards are possible. We endorse the recommendation of the Agricultural Finance Sub-Committee that, "While credit societies should not ordinarily attempt mortgage finance they should be enabled to have a statutory charge on the crop for the seasonal finance given to buttress personal security."¹ When such a charge has been created by the borrower, it should not be alienable without the permission of the society. A prohibition of this kind was, for example, incorporated in the Bombay Co-operative Societies' Act when it was amended in 1948. Earlier, a similar provision had been made in the Bombay Agricultural Debtors' Relief Act. We suggest that State Governments should consider the desirability of enacting similar legislation so as to induce the prompt repayment of crop loans given by co-operative societies.

Apart from legal safeguards, the success of the crop loan system is to a large extent dependent on adequate supervision

¹ *Report of the Agricultural Finance Sub-Committee, 1945, p. 49.*

and efficient arrangements for recovery. It will be for the primary society and the central bank, together, to provide for both.

11. In connexion with all types of short-term accommodation (including crop loans) at the primary stage, one fairly general problem will be that of having to 'ration' the available funds when they fall short of legitimate credit requirements. Such rationing should be in favour of the medium and small cultivators. Thus, it may be arranged that, while the member whose holding is relatively small gets 100 per cent of his demand, the one with the larger holding gets only 60 per cent or 70 per cent. If the latter has a fixed deposit in the society he should, of course, in addition, be entitled to borrow against it, this facility being made available whether or not the loan against the deposit is for a productive purpose.

12. Apart from crop loans, the primary agricultural credit societies may provide medium-term loans (for periods not exceeding five years) for productive purposes to the extent of their owned resources, in the shape of paid-up capital and reserves, together with such medium-term funds as they are able to obtain from the central financing agencies.

13. Agricultural credit societies may also supply the members' requirements for crop production such as seed, cattle-feed, fertilizers and agricultural implements. Where suitable, they may also supply basic, but standardized, consumers' goods (sugar, kerosene, matches, etc.) on the basis of indents or of established demand. We endorse the recommendation of the Fifteenth Registrars' Conference (1947) that the Registrar may permit a society to resort to the system of outright purchase and sale (as distinguished from the 'indent' system) to the extent of twice the paid-up share capital, provided its size, financial strength and soundness of management permit.

14. Subject to the fulfilment of certain prerequisites, especially the existence of arrangements for safe custody and proper valuation, selected larger-sized primary agricultural credit societies

may (as mentioned in the preceding chapter) issue loans on the pledge of gold and jewellery or against approved securities. We have elsewhere dealt with the functions of the larger-sized primary agricultural credit society *vis-a-vis* the specific types of consumption needs (marriages, illnesses, etc.) of the regular members as well as of others—handicraftsmen and labourers no less than cultivators—through the institution of a chit fund run by the society.

15. The system of crop loans cannot be regarded as effective and complete unless integrated with co-operative marketing. There should, therefore, be a close link between primary agricultural credit societies and marketing societies. The primary society should finance its members on the condition that their produce is sold through the marketing society with which it works in co-ordination. The primary agricultural credit society will act as agent for the sale of the produce to the nearest co-operative marketing society, assemble the produce of its members, supervise, and, if necessary, arrange for the transportation of the produce.

16. Every larger-sized primary agricultural credit society should have a paid, full-time, qualified secretary who has, if possible, been trained under the scheme of the Central Committee for Co-operative Training. As recommended in the next chapter, it would be desirable for the State Government (in some instances the state co-operative bank) to have within its own subordinate cadre a nucleus of suitably qualified and trained persons who can be deputed—on the basis of 'loan' of services—to different societies.

PRIMARY LAND MORTGAGE BANKS

17. In those States in which land mortgage credit is yet to be developed on the co-operative basis, the central land mortgage bank will be the first to be organized, then 'sections' and branches in the districts, and last of all primary land mortgage banks. Local business and local response must be available before there can be said to be scope for the successful establishment of a primary land mortgage bank.

Primary land mortgage banks can play a useful part in matters such as examination of loan applications for improvement of land and in the supervision of the use of such loans; prima facie, they can discharge these functions with more local knowledge and to that extent more effectively than branches of central land mortgage banks. For this reason, however slow their development on any extensive scale, it should be ensured that the development is not avoidably slow. Before organizing primary land mortgage banks, however, there should be a careful enquiry into the conditions of each area. The area of operations of a primary land mortgage bank should, on the one hand, be compact so as to enable it to maintain close touch with the borrowers and, on the other, not so small as to render the bank an uneconomic unit in relation to the volume of business available. State partnership in primary land mortgage banks should follow the same broad lines as that in the larger-sized primary agricultural credit societies. The Government contributions will be, for instance, in the form of an addition to the share capital of central land mortgage banks which will take up the shares of primary land mortgage banks.

GRAIN BANKS

18. In the relatively undeveloped areas, especially those peopled by backward or tribal classes, the organization of grain banks should be undertaken by State Governments, and their running entrusted, preferably, to the co-operative department. Proper arrangements will of course have to be made for the management of these banks, in particular for the maintenance of accounts and prompt collection of grain loans.

PRIMARY MARKETING SOCIETIES

General

19. We recommend that primary marketing societies should be established at either important *mandis* (wholesale markets) or at taluka centres (sometimes the two would coincide), as convenient. Before starting a primary marketing society, however, it is necessary to study the relevant conditions of the particular area concerned (e.g., marketable produce available, present arrangements for marketing, etc.). Thus, primary marketing

societies (as also co-operative societies for processing and for other important economic activities) should, to start with, be organized only in selected places, i.e., cautiously and with a view to assured success. Under the scheme recommended by us, there would be forthcoming from Government not only the requisite contribution to share capital to make the primary marketing society financially strong, but also an adequate provision of trained personnel for performing various technical functions.

Membership

20. It is necessary to ensure by positive State supervision that every marketing society at the primary level is so composed and organized and its affairs so conducted that the medium cultivator certainly, and the smaller cultivator wherever possible, is effectively represented in the organization and his interests adequately looked after by those in charge of it.

Share capital

21. Government should ordinarily make a direct contribution to the share capital of primary marketing societies. This will be necessary because, in most States, district and apex marketing societies are either non-existent or inefficient. When these are established, or are operating efficiently (but not till then), the State Government's contribution could be channelled through them as in the parallel case of the co-operative credit structure. There should be a minimum share capital as also, by way of target, an optimum one. Government's part of the share capital should commence to be retired after the optimum is reached. At all these stages there should be compulsory contributions to the share capital from the members of the society. Each such contribution should be related, as a percentage, to the turnover of the member's sales through the society or, alternatively, to the size of the loan taken by the member (from, e.g., a credit society with which the operations of the marketing society or processing society are co-ordinated).

Functions

22. The main function of a primary marketing society will be to market the produce of its members. It may take up the

functions of pooling and grading and, in particular, also of processing wherever appropriate. For dealing with important crops such as cotton, sugar-cane, wheat, jute, groundnut, etc., in areas where they form the most important crops, it may be necessary to set up separate marketing societies crop-wise instead of region-wise. In other instances, however, a general marketing society should ordinarily suffice. At each centre where a marketing society operates there should be either a larger-sized primary agricultural credit society or a branch of the central co-operative bank, so that credit and marketing may be effectively linked.

Regulated markets

23. As mentioned in Chapter 27, as long as a regulated market continues to be managed as at present, i.e., by a market committee etc., under the existing law, provision should be made for the nomination on the committee of one or two representatives of the co-operative marketing and banking institutions, if any, of the locality. By a parallel arrangement, these should be on the advisory committee wherever the new arrangement comes into force, i.e., when the regulated market has been taken over by the All-India Warehousing Corporation or a State Warehousing Company.

THE CO-OPERATIVE AGENCY (III PERSONNEL, SUPERVISION AND AUDIT) : RECOMMENDATIONS

WITH the State as the major partner in co-operative institutions, it will be possible to rectify a very serious weakness of the co-operative movement, namely, a staff which is generally inadequate, ill-qualified and poorly paid. It is obvious that the position is bound to remain the same as long as each of a number of societies and banks, many of them weak and most of them unco-ordinated, has to find for itself its managerial, technical and other staff.

PERSONNEL

2. Under the new arrangement it will for the first time be possible, wherever needed, to have common cadres of different grades and technical qualifications. In other words, to the extent necessary, these cadres can be instituted by Government (or, as explained later on, by the state co-operative bank) as part of its own services and the personnel loaned to the different institutions which will now acquire a unity of structure under State partnership. The loan of services should be on terms which do not place an undue burden on the co-operative institution; e.g., leave and pension charges could be waived and, where warranted, a part of the salary itself met by Government.

It is not our suggestion that existing personnel of co-operative institutions should be replaced extensively by persons belonging to the Government cadres. Well-managed institutions, with experienced and competent staff, should of course not be disturbed at all. Where the existing staff needs training, this should be arranged for under the scheme of the Central Committee for Co-operative Training. In suitable instances, some of the existing personnel could no doubt be absorbed in the

Government cadres themselves (or, as the case may be, in the cadres of the state co-operative bank). The problem really arises in respect of badly or indifferently run institutions, with ill-trained or incompetent staff, especially on the occasion of these institutions being reorganized under State partnership. It is in relation to contingencies such as these that we suggest the creation of an adequate pool of trained officials, partly for the State Government's own needs and partly for deputation to co-operative institutions. In this matter, account will have to be taken of the needs of co-operative institutions, credit and other, to which it would be desirable to lend the services of trained personnel until such time as these institutions are placed on a sound footing and can commence employing their own trained personnel. In most States, however, this latter development is likely to take a long time and, meanwhile, the provision of trained staff especially for the key posts of the institutions is of the utmost importance. The loaning of personnel for some of these posts may, where appropriate, be the function of the state co-operative bank which accordingly will have to enlarge its own cadres for this purpose; but this would be possible only in the very few States in which the state co-operative banks are themselves well developed and efficient. Elsewhere, part of the trained staff of even the state co-operative bank, for important posts, will have to be provided by the State Government. For marketing, processing, etc., as distinguished from credit, the function of providing technical personnel will necessarily devolve on State Governments and not on state co-operative banks.

We recommend that State Governments should institute two broad divisions in their Co-operative Services, one 'Administrative' as at present, and the other 'Technical', each composed of three cadres: Class I, Class II and Subordinate. The State Co-operative Administrative Service (Class I and Class II) will be responsible (as it already is in many States) for carrying on the normal administrative duties of the co-operative department such as administration and audit. From the Subordinate Co-operative Service (Administrative) may be deputed selected officials to serve as secretaries of the larger-sized primary agricultural credit societies wherever that is necessary and feasible. The State Co-operative Technical Service (Class I and Class II) will consist of specialized staff (e.g., financial advisers, managers

of co-operative banks, technical personnel connected with marketing, industrial co-operation, processing, dairying, etc.) who can, where necessary, be deputed to serve in institutions above the rural base. The Subordinate Co-operative Service (Technical) will also consist of trained technical personnel, but they are meant for institutions at the primary level which require specialized staff, e.g., primary marketing or processing society.

The training of all these Services should be organized by, or under the guidance of, the Central Committee for Co-operative Training, working in conjunction with State Governments. We recommend that these Services should be set up by the State Governments as early as possible.

CO-OPERATIVE DEPARTMENT

3. The head of the Co-operative Department is the Registrar of Co-operative Societies. He occupies a key position in the administrative structure of the Movement. We endorse the following observations and recommendation of the Co-operative Planning Committee:

"He [the Registrar] should not only be a man of outstanding ability but should also be temperamentally suited for the work of running a popular movement of this kind. Before he assumes charge of the post of the Registrar, he should undergo a thorough training and should work for at least two years as Deputy or Joint Registrar. During the course of his training as well as during his tenure of office he should be allowed opportunities to study the working of the Movement in other Provinces and outside India. . . . In view of the responsible nature of the duties of the Registrar, he should enjoy a higher status than he does at present; in our opinion he should rank with the heads of such departments as Police and P.W.D. for general purposes. He should also have a longer term of office than at present. . . . his tenure should be for about ten years. As such a long term of office is likely to make the officer senior enough to be due for promotion to posts carrying higher emoluments, we recommend that he should be fully compensated for holding the post till the end of the term."¹

¹ *Report of the Co-operative Planning Committee, 1946, p. 155.*

It would be advantageous from many points of view if the subjects of Co-operation, Agriculture and Cottage Industries (as well as Industries generally) were combined in one department in the secretariat of each State Government and placed in charge of a senior Secretary, who might also be Development Commissioner. The Registrar would then work under the Development Commissioner-cum-Additional Secretary, as also would the Director of Agriculture etc. It would be a further advantage if all the subjects mentioned were combined in the portfolio of one Minister.

SUPERVISION AND AUDIT

4. The present arrangements for supervision are for the greater part defective and unsatisfactory.

Supervision should be invariably treated as the legitimate function of apex banks and central banks. They are well fitted for this role because of the intimate relations which may be expected to exist between them and the societies. Besides, as financiers of the societies, they have to safeguard their own interests and ensure the soundness of the operations and solvency of the societies. The criticism that the financier's interest is likely to preponderate over the interests of societies which are to be supervised loses its force when the financing bank consists, as it should, largely of representatives of the societies to be supervised.

In States where the co-operative movement is well developed we consider that the staff for supervision may be engaged by the state co-operative bank itself. Elsewhere the supervisors should be appointed by Government as part of one of its cadres, and their services made available, on the basis of deputation, to the co-operative central financing agencies. In either case, provision should be made for an adequate number of supervisors.

The recommendations made above also apply to personnel of higher grades, e.g., managers etc., of apex and central banks.

5. One of the statutory duties of the Registrar of Co-operative Societies is to audit all co-operative societies once a year. The general complaints about the present arrangements for audit are that the staff is neither adequate nor well trained and that

the audit is in several States heavily in arrears. The position regarding arrears is particularly bad in certain States. Our recommendations regarding audit are as follows:

1. Audit (along with office inspection of co-operative organizations) should continue to be in the hands of Government.

2. Where there is a Development Commissioner, the Chief Auditor of the co-operative department should be responsible to him and not to the Registrar.

3. The existing audit staff needs to be considerably strengthened in most States. This requirement should be given a high priority.

4. Co-operative institutions should usually, during the first few years of their existence, be exempted from payment of audit fees. The period of exemption should be specified in the rules. This recommendation is of special importance in regard to agricultural credit societies.

5. For apex and central banks, big urban banks and other types of institutions with a large turnover, there should, as far as possible, be arrangements for concurrent audit. For all primary societies, there should be an interim audit (not as detailed as the final audit) at intervals of six months.

6. Rectification of defects revealed by audit is seldom satisfactorily ensured. The audit section should arrange to verify periodically that the defects pointed out are being promptly rectified.

7. A co-operative audit manual should be drawn up for each State.

8. There should be uniform standards of audit classification on an all-India basis in respect of different types of co-operative organizations. The existing standards are so varying as to cause a great deal of confusion. The Agricultural Credit Department of the Reserve Bank has, in conjunction with the Reserve Bank's Standing Advisory Committee on Agricultural Credit, been attempting to evolve a uniform system of audit classification of co-operative banks. Some States have signified their acceptance of the standards suggested. These efforts should be further pursued.

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THE TRAINING OF PERSONNEL: RECOMMENDATIONS

ON few things will the success of the integrated scheme depend so much as on finding the right men and giving them the right training. The personnel we have to consider is that of (1) co-operative departments and institutions; (2) the State Bank; and (3) the All-India Warehousing Corporation and its auxiliaries.

TRAINING SCHEME

2. As regards the first, we would refer to the scheme of the Central Committee for Co-operative Training, which consists of (1) all-India arrangements for training higher personnel; (2) regional arrangements for training personnel at the intermediate level; and (3) state-wise arrangements for training subordinate personnel. The all-India centre for higher personnel will continue to be at Poona, but will provide training for a larger number than at present, viz., for 35 to 40 candidates every six months. There will be special courses for some of the more important types of co-operative activity and organization. We approve of the existing policy of giving substantial concessions in the shape of exemptions from fees, grant of stipends, etc., and trust that State Governments and co-operative institutions will make the maximum possible use of the expanded facilities about to be made available. We also recommend that special courses should be provided without delay for co-operative banking and co-operative marketing (and processing), and, as soon as possible after that, for the subject of industrial co-operatives as well. The syllabus for co-operative banking should include a special course in land mortgage banking.

Right selection is even more important than right training; and the manner of recruitment of proper candidates for rural work of this kind will no doubt be worked out by the Central Government, State Governments and Public Service Commis-

sions in consultation with experts on the subject. As regards the training after selection, bearing in mind the need to provide for a positive rural bias, we would put forward the suggestion that the present period of training of six months in the all-India training centre should be preceded by at least three months during which the candidates are put through a special course of training at one or more rural centres, the course being so designed as to give them, among other things, a practical insight into rural surroundings, rural needs and rural problems. We also commend for consideration by the Central Committee the suggestion that each candidate should, after the period of formal training in the all-India centre, be attached to an efficient institution of the particular type (central bank, marketing society, etc.) he is expected to join after completion of training.

It follows that we consider that, at the highest level, the period of training will ordinarily have to cover a whole year—a three-months' course at one or more rural centres, six months' training in the all-India centre (both general and special, the latter directed to the work he will have to do) and lastly another three months of purely practical training in an appropriate institution.

TRAINING FOR TEACHING STAFF

3. We attach importance to the all-India centre providing training facilities for the teaching staff which is to be employed in the regional training centres and, to a certain extent, even that which will be engaged at the subordinate level of training in different States. Among the teachers for whom such training should be designed we include also those who are charged with imparting instruction in Co-operation to village-level and other workers in National Extension Blocks and Community Projects.

TRAINING OF 'EXTENSION' WORKERS

4. We note that the Central Committee contemplates that there should in all be some five regional training centres for intermediate personnel. Besides the one at Poona which has recently been expanded, a new centre has been set up in

Madras. The Committee hopes very soon to set up a third centre¹ to serve the north-eastern areas and thereafter two more for the other regions. Some of the recommendations we have made above will apply *mutatis mutandis* to these regional centres. We recommend investigation by the relevant authorities, as well as by the Central Committee for Co-operative Training, of the question whether part of the training of 'extension' workers (as distinguished from that of their teachers), so far as such training relates to Co-operation, may not perhaps be best conducted at the regional centres, instead of at each of the 30 to 35 multi-purpose training centres established for training such workers. It is needless to say that at the regional centres, as at the all-India centre, due emphasis should be placed on a sympathetic approach to rural problems and on individual practical training for the particular job ultimately in view for the candidate.

SPECIAL COURSES ETC.

5. At the all-India centre particularly, and at the regional centres generally, we consider that part of the training in co-operative banking should consist of a special course in commercial banking. A point to consider would be whether the Bankers Training College can be of some use in this context, for example, by the provision of special courses of short duration to supplement the main course at the all-India centre. We recommend that this possibility be examined by the Central Committee for Co-operative Training.

At the subordinate level, again, we would emphasize the need to train the candidates in the different aspects of the duties which will fall to be discharged by them in the pursuit of the programme of co-operative development envisaged in this Report. In any such programme, administration, supervision and audit are of the utmost importance, and it is clearly necessary that both general and special courses should be designed at all levels so as to train the personnel (especially the personnel of co-operative departments) in these important aspects of co-operative organization. We would also urge the importance of the candidates being taken round to States such as Bombay and

¹ This centre has since been set up at Pusa in the Bihar State.

Madras, where the co-operative movement is relatively well developed.

6. We definitely contemplate that the all-India centre and the regional centres will, in due course, cater not only for co-operative administration, banking, processing, marketing, cottage industries, etc., but also for the even wider variety of co-operative activity included in the First Five Year Plan which comprises co-operative farming, consolidation of holdings, irrigation and so on. This larger objective should be kept in view in the selection of sites, designing of plans, etc., at the stage—which we hope will not be far off—when the all-India and regional centres are proposed to be housed in buildings of their own. It follows that both in respect of the present scope of training and the larger field which we hope will open out for these institutions, the Reserve Bank and the Government of India should provide adequate funds, recurring and non-recurring. The recurring requirements will doubtless exceed substantially the present provision of about Rs 10 lakhs per annum, of which half is contributed by the Reserve Bank (for higher and intermediate training) and half by the Government of India (for the training of subordinate personnel).

NON-OFFICIAL WORKERS

7. As regards the training of non-official workers, we would stress the need for the Central Committee working in collaboration with the All-India Co-operative Union, and in order to make this possible suggest that the headquarters of the Union be located in Bombay, preferably in the same building as the Reserve Bank's Agricultural Credit Department with which the Central Committee is intimately connected. Provided the Union shows itself ready to collaborate on these lines, we recommend (1) that the Reserve Bank give every assistance in the matter of accommodation as well as of co-ordination of organizational machinery and (2) that the Central Government make more funds available to the Union for activities falling within its sphere. The most important of these will be the training of non-official members and office-bearers and educative propaganda for these as well as members of the public. An aspect

which needs special mention is the need to translate and develop basic co-operative literature and make it available in the regional languages.

BANKERS TRAINING COLLEGE

8. Coming next to the Bankers Training College, we would emphasize that this institution—and others of its type, all-India or regional, which may later be established—will be of the utmost significance for that part of our scheme which is connected with the State Bank; the proper training of the staff of the State Bank will be of great importance. Part of this training may be common to the employees of the State Bank and those of other commercial banks which may make use of the College. But we recommend special courses, in addition, designed for candidates from the State Bank in order that they may be properly equipped for their semi-public functions as also for meeting the technical needs peculiar to them (e.g., management of currency chests). We would further recommend, as regards the employees of the State Bank, especially those who are to be agents at district headquarter places, that they should be given a special course in co-operative banking at the all-India centre at Poona. Such 'cross-fertilization' between commercial and co-operative banking will greatly increase the prospect of success of the integrated scheme.

PERSONNEL FOR WAREHOUSING

9. Finally, as regards the officers, supervisory personnel and certain other categories of staff of the All-India Warehousing Corporation, State Warehousing Companies and co-operatives in charge of storage and warehousing, we would repeat our suggestion in Chapter 27 that special arrangements for their training should be made in co-ordination with the Bankers' Training College on the one hand and with the Central Committee's training institutions on the other.

THE ROLE OF GOVERNMENT AND GOVERNMENT FINANCE : RECOMMENDATIONS

WE have elsewhere mentioned the weaknesses and strong points of Government finance from the point of view of the requirements of a sound system of agricultural credit. In this chapter, we propose to advert to the suggestions we have already made, elaborate them where necessary and bring them together in appropriate sequence.

STATE GOVERNMENTS

2. We shall take up the functions of the State Government in relation to finance and credit for the agricultural producer, and start with such of these as we feel have only limited scope in the sense that they do not hold promise of effective development on any large scale or on a scale commensurate with the expenditure and administrative effort involved. It is necessary to be very clear in one's mind as to the place which these functions should occupy in an integrated scheme, especially because of the strong advocacy which some of them have received from certain quarters and because of the analogy with the practice in foreign countries by which they are usually supported. An idea which has been put forward is that Government should aim at eventually building up a country-wide administrative machinery for the purpose of turning the non-creditworthy cultivator into a creditworthy person, not only by programmes of development such as irrigation for the improvement of his economic status, but also by a system of 'supervised credit', that is to say, by a species of 'extension' service conceived on a very much larger scale than at present. We have already expressed the view that any large institutional development on the part of Government on these lines will be completely beyond its administrative and financial resources, besides being

likely to defeat its own purpose because of its concentration on instruction and enlightenment, where the real need is for promotion and reorganization of primary economic activity for the benefit of the cultivator. The recommendations we have made should, if accepted and carried out, have the effect of bringing an increasingly large section of cultivators into the fold of co-operative credit. This, in our view, holds out much greater promise of achievement than does an attempt first to divide the agricultural population of the villages, by the necessarily subjective criteria of the credit agency, into the dichotomy of 'creditworthy' and 'non-creditworthy' and then to bring the latter under an elaborate apparatus of educative supervision, guided credit and individual sponsorship. Moreover, the cost of a programme on the lines we have suggested, large as it may be, will yet seem very modest when compared with that of nation-wide 'supervised credit'. We should not, however, be understood as minimizing in any way the importance of the 'extension' work now undertaken in Community Projects and National Extension Blocks, still relatively small in the aggregate in point of coverage of area and population, but spread far and wide over different regions of the country. On the contrary, we regard extension as perhaps the most significant administrative development in post-independence India. It would, however, be futile to expect of it what it will inherently not be able to achieve, viz., the economic emancipation of the cultivator as the one step most needed today in any programme which aims at his lasting benefit. Briefly, we conceive as complementary in an essential sense—and not, certainly, contradictory in any sense—the role of extension work and the role of economic partnership between the cultivator and the State. For much the same reasons, we are not in favour, except in special circumstances such as we shall mention below, of the idea of 'sponsored' co-operative membership of the so-called non-creditworthy. If there are two classes of members in a co-operative society, some of them sponsored and some non-sponsored, the co-operative society will have to develop two attitudes towards the assessment of a member's repaying capacity; for those who are sponsored, it will look not so much to the capacity of the member to repay as to the margin of guarantee available. This is likely to impair such method and

efficiency as the society may possess in regard to the assessment of normal creditworthiness.

‘TACCABI’

3. We then come to the main direction in which Government funds are now made available as credit to the cultivator. This is the system of *taccavi*. We have elsewhere given details of how this system operates; it is so defective that there is no alternative to its being considerably restricted. In the integrated scheme, we envisage the channelling of productive finance through the co-operative society. Further, we have recommended that Government should be the major partner in the co-operative credit system. It would be totally unnecessary and wasteful for Government to create, on the one hand, a semi-state credit machinery, through large-scale financial and administrative participation, and on the other pursue independently a parallel line of credit activity in the form of *taccavi*. *Taccavi* should hereafter be strictly limited, subject to the transitional exceptions mentioned below, to periods of widespread distress such as famine, scarcity, floods and so on.

4. At this point, we would consider the scope for co-ordination between co-operative credit and Government *taccavi*. One context which needs to be mentioned arises when there is famine or distress. At such a time, *taccavi* assumes large proportions and is given to a much wider section of the population than usual. At the same time, however, a distinction is sometimes drawn between members of co-operative societies and others, and distress finance denied to the former on the ground that it is the business of their societies to finance them. While it is true that ordinarily *taccavi* should be confined to non-members, an abnormal situation such as is created by famine has obviously to be treated as an exception to the general rule. On such occasions, no distinction for purposes of *taccavi* should be drawn between members of co-operative societies and others. Another context which has to be mentioned is that of concessional *taccavi* which, for certain specified productive purposes, is provided by Government at specially low rates of interest. It often happens that co-operative finance is given for identical purposes at rates of interest

higher than those charged by Government, the reason being that the subsidy in effect offered by the State cannot be afforded by the co-operatives. On this subject, we endorse the following suggestion contained in a resolution adopted by the Bombay State Co-operative Council at its first session :

“As far as possible, loans required for the agriculturist for his different short-term and long-term agricultural needs should be advanced at uniform rates of interest. Where, however, Government desires to advance finance for special purposes at concessional rates of interest, such concessional finance should be made available through co-operative institutions.”

RELIEF AND GUARANTEE FUND

5. It is again in connexion with Government's responsibilities in times of distress and emergency that we recommend the establishment of a State Agricultural Credit (Relief and Guarantee) Fund to be used in conjunction with the National Agricultural Credit (Relief and Guarantee) Fund which should be similarly instituted by the Central Government under the Ministry of Food and Agriculture with a minimum annual allotment of Rs one crore. Where irrecoverable arrears of debts due to co-operative credit institutions have assumed a magnitude which threatens the stability of the structure and provided the Ministry of Food and Agriculture is satisfied that such arrears have arisen from causes, such as widespread or chronic famine, beyond the control of the institutions concerned, the Fund of the Central Government can be utilized for the purpose of writing off such arrears; relief from this Fund may be made conditional on the State Government making a stipulated contribution for the same purpose from the corresponding Fund maintained by it. We suggest that the proportion to be paid in such a context by the State Government should be related to the financial strength of different State Governments.

SPECIAL CONTEXTS

6. Apart from the 'emergency' category of credit responsibilities which a State Government has to assume in times of famine or other form of distress, there are certain special

responsibilities which arise for Government in specific contexts and which may be regarded as exceptions to the general rule we have recommended of Government not attempting to induce co-operatives to lend by itself guaranteeing part or whole of the loans. To illustrate, three important categories would be:

1. An area for which, in view of its very marked economic backwardness, a special plan of development, involving much more Government subsidy than usual, has been devised and is in operation;
2. An area which is largely inhabited by backward tribes and for which a similar plan of development is in operation;
3. An economically backward occupational class, when special policies of rehabilitation are adopted for their benefit (e.g., forest labourers when co-operatively organized and entrusted with the felling of forest coupes, on special terms, in elimination of the contractor).

In certain limited and well-defined contexts such as these the State should take special responsibility and provide administrative, technical and financial assistance for the benefit of the areas and classes concerned, including subsidies, guarantees, etc., where necessary, to the co-operative societies and the central banks or branches of state co-operative banks which in the aspect of credit are participants in these programmes of special development. The policy of guarantee would then relate to a whole class or a whole area and, within it, would not distinguish between individual and individual.

TYPES OF GUARANTEE

7. Payments which may be necessitated as a result of certain categories of Government guarantee (e.g., guarantee to land mortgage banks in the context of the scheme of productive loans and the State Government's guarantees in respect of short-term accommodation and medium-term accommodation provided by the Reserve Bank to state and central co-operative banks for agricultural purposes), should be legitimately payable out of the State Agricultural Credit (Relief and Guarantee) Fund. The Fund can also be drawn upon for payments of liabilities arising out of any guarantees in respect of areas which are economically backward or which are inhabited by backward

tribes. There is, however, one type of guarantee which should not be brought within the purpose of the Fund, viz., the guarantee in respect of short-term accommodation from the Reserve Bank for approved cottage industries. The scope and financial implications of the guarantee for cottage industries are by themselves so wide that they will require entirely separate arrangements for fulfilment of guarantee etc.

CONTRIBUTION TO THE FUNDS

8. Two types of contribution to the State Agricultural Credit (Relief and Guarantee) Fund might be annual budgetary provision by the State Government and part of the dividend earned by the State Government on its share capital in the various co-operative credit agencies to the extent that such dividend is over and above a particular minimum such as 3 per cent.

We have elsewhere referred to the Agricultural Credit Stabilization Funds to be created within the state co-operative bank etc. Our proposal is that the other part of Government's dividend above the specified minimum (e.g., 3 per cent) should be earmarked within the institution itself for contribution towards the Agricultural Credit Stabilization Fund of that institution. In addition, of course, there will be similar contributions to the Stabilization Fund from the dividend payable to the other shareholders (e.g., primary or other co-operative societies) in the state or central co-operative bank. This Fund will be co-ordinated, in the manner already indicated in Chapter 25, with the National Agricultural Credit (Stabilization) Fund of the Reserve Bank of India.

CO-OPERATIVELY UNDEVELOPED AREAS

9. We have so far dealt with the functions and responsibilities of the State Governments in relation to special circumstances arising from famine, distress, etc., or from the economically backward character of specific areas or specific classes or from contexts such as the financing of land improvement by land mortgage banks. There is also the question, to which we have made incidental reference, of the arrangements to be made directly by the State Government in those areas where the co-operative machinery is either non-existent or is almost insigni-

ficant. In such cases, *taccavi* for productive purposes is unavoidable. We would recommend in this context that two firm lines of policy be followed. First, the borrowers should, at the earliest possible moment, be encouraged to form themselves into a co-operative society by the adoption of a positive policy of co-operative development. Secondly, the policy of giving *taccavi* should be confined to distinct and compact areas and should not apply, for instance, to people within the territorial jurisdiction of a co-operative society who are not yet members of that society.

STATE AS PARTICIPATOR IN CO-OPERATION

10. We shall now refer to the responsibilities of the State as participator in co-operative credit. Besides financial, technical and administrative participation, one specific liability of the State Government would be in connexion with contributions to the Agricultural Credit Stabilization Funds (to be instituted by state co-operative banks, central banks, etc.) to which we have referred. As already stated, the financial contribution here would be by allocation to the Funds of part of the dividend earned by Government above, say, 3 per cent.

In regard to co-operative economic activities other than the provision of credit, we have dealt elsewhere with the important aspect of the State's participation in primary economic activities such as processing, marketing, etc. In these instances again, the State Government's responsibility will be that of providing the requisite strength, financial, administrative and technical, to an organization in which the primary producer is himself represented and in which he takes an active part. We suggest that the whole of the dividend payable to Government on its share capital in these institutions should be funded by it into a State Co-operative Development Fund corresponding to the National Co-operative Development Fund at the all-India level. Thus, it may be drawn upon for making contributions to the share capital of co-operative marketing and processing societies. The contributions to this Fund would consist of the proceeds from this dividend and such annual contributions as the State Government may be able to make. In view of the importance of this part of the programme, we hope that the

State Governments will set apart substantial sums every year as contributions to the State Co-operative Development Funds.

RURAL LABOURER AND HANDICRAFTSMAN

11. The next important item concerns the responsibilities of the State Government in regard to the economic activities of the village labourer and the village artisan, i.e., that part of the sector which is dependent on cottage industries, agricultural labour, etc. As regards the former, we commend to the notice of State Governments the efforts made by certain States to organize forest labour, labour on canal-digging, etc., into co-operative societies, some of which have shown definite promise. We envisage useful possibilities for such societies, provided here again there is adequate financial, administrative and technical participation by the State Governments.

As regards the village handicraftsman, it is clear that the organization of cottage industries etc., for the purpose of providing ancillary and supplementary lines of productive activity for the villager is of extreme importance. We believe that, in this matter again, the real solution lies in State participation in co-operative activity, such participation being financial, administrative and technical. Some suggestions on this are contained in Chapter 36.

CENTRAL GOVERNMENT

12. We have so far concerned ourselves in this chapter mainly with the functions and responsibilities of the State Government, but have also dealt with some of the corresponding functions and responsibilities of the Central Government as, e.g., in connexion with the National Agricultural Credit (Relief and Guarantee) Fund. It is not necessary to mention in any great detail here the other functions of the Central Government relevant to this context, since they are covered by Chapter 27 on the National Co-operative Development and Warehousing Board. Briefly, the more important co-ordinating functions of the Central Government arising from the integrated scheme will be exercised chiefly through the Board, and the finances will be made available through the National Co-operative Development Fund and the National Warehousing Development Fund, both set up under that Board.

THE PRIVATE CREDIT AGENCIES : RECOMMENDATIONS

UNDER the two chapter headings of (1) moneylenders, traders and indigenous bankers and (2) commercial banks, we have attempted to assess the record of the private credit agencies in relation to the provision of agricultural credit.

MONEYLENDER

2. The moneylender, including in that term all the main varieties such as agriculturist and professional, trading and non-trading, is today, as we have seen, responsible for much the larger part of the credit which the cultivator obtains. At a higher level, that is to say, in the town and in the city, both moneylender and trader tend to connect themselves up with the whole further ramification of indigenous bankers and commercial banks. All this emerges from what has already been depicted; our purpose in recalling it here is to enable a brief look again at this picture and then at the one since given of the integrated scheme, in order that it may be judged whether the two can be fitted into a common frame. It seems to us that they cannot. It is certainly obvious that the moneylender can be allotted no part in the scheme, important or insignificant, notwithstanding a dominance which today is overwhelming. Thus, it would be a complete reversal of the policies we have been advocating to give him a position in the co-operative banking structure, when the whole object of attempting to develop and strengthen that structure is to provide a positive institutional alternative to the moneylender himself, something which will compete with him, remove him from the forefront and put him in his place.

What would be an effective alternative for the cultivator would, by the same token, be an effective rival from the point of view of the moneylender. Many of the present malpractices of the moneylender are made possible by the absence of strong

institutional competition such as, we believe, will be provided by the system recommended in these chapters. When such competition is organized, it may even be hoped that the moneylender's usefulness will for the first time predominate over the less useful and more undesirable features of his present dominance over the rural scene. The remaining problem will be that of devising a scheme of control over the moneylender's activities. This will have to be more realistic than can be said to be the case with the prevailing schemes of control under the moneylending legislation of different States. The following are among the important points brought out in the recommendations of the Agricultural Finance Sub-Committee in regard to a proper scheme of control over the moneylender:

1. The need to fix the maximum rate of interest at a level which is not unduly low;
2. The need to have a proper and adequate system of supervision and enforcement;
3. The inclusion in the different Acts of a number of points which need to be provided for in any comprehensive system of control and supervision over the moneylender, e.g., registration and licensing of moneylenders, maintenance of accounts in a prescribed form, and limitation of the rate of interest.¹

The three main items need further notice. First, the rates of interest prescribed in the different States should be reviewed and revised in a realistic manner. Secondly, the administrative arrangements should be reviewed for each State and adequate supervision ensured by the provision of the necessary staff, preferably under the Registrar of Co-operative Societies who, in Bombay for example, is also the administrative authority for supervision over moneylenders. Thirdly, it is suggested that there should be a review of moneylending legislation in different States in order to ensure that the provisions of their Acts adequately cover the various points mentioned in the Report of the Agricultural Finance Sub-Committee.

TRADER

3. When co-operative marketing societies, financially and technically strengthened in the manner we have suggested,

¹ *Report of the Agricultural Finance Sub-Committee, 1945, pp. 62-5.*

begin to offer him healthy institutional competition, the trader's operations are likely to evolve into a form of activity less harmful and more beneficial to the cultivator. The trader, like the moneylender, will then fall into place, not indeed in the scheme itself, but in a role supplementary to it, as providing useful services to the producer along with the proposed system of institutional marketing and finance.

As regards the wholesale trade at the export end or at the stage immediately preceding retail distribution and consumption, we trust that the agencies concerned can be persuaded, or will be able to persuade themselves, to link themselves with the co-operative marketing societies, thereby enabling the producer to get the best possible price for his produce. For the wholesale trade and traders generally, for the forward markets, and for commercial banks, insurance companies and other financial institutions, one way which will be open for constructive participation in the scheme which we have outlined is to contribute to the share capital and direction of the All-India Warehousing Corporation.

COMMERCIAL BANK

4. This brings us to an important change which the successful fulfilment of the scheme can bring about in the significance of commercial banks to agricultural credit. If the storage and warehousing programme is effectively carried out and, further, if that gives the needed stimulus to the proper grading of the more important agricultural commodities, commercial banks will then for the first time be able to lend substantially on such commodities; and, also for the first time, they will have agricultural bills which will be negotiable and which the Reserve Bank can rediscount for them under section 17(4)(d) of its Act.

The various suggestions which we have made in regard to the extension of the branches of the State Bank should result in a cheapening of the rates of remittance, which in turn should make it possible for commercial banks to embark on larger branch extension themselves. Any idea that the State Bank of India, by a progressive increase in the number of its branches, is likely to compete with commercial banks and retard their expansion will be a thoroughly mistaken one.

Finally, if Government endorse and adopt a positive programme, such as is here advocated, for the development of rural credit, it may legitimately be expected that the commercial banks will not fail to orient themselves to the underlying policies and that the more informed and responsive among them will make a significant contribution to the success of the programme, especially that part of it which is connected with the financing of co-operative marketing societies, processing societies and similar co-operative institutions. In many cases, this will be very necessary; it will be particularly so in areas which the State Bank may take time to reach, but which may meanwhile happen to be served by one or more of the other commercial banks of the country.

In the same context, we also hope that all the financial agencies we have mentioned—moneylender, trader, indigenous banker and commercial bank, as well as insurance companies, investment trusts and other financial institutions in urban areas—will respond to the need for supporting co-operative debentures, especially those of land mortgage banks, including the new land mortgage banks which we have suggested should be set up as a country-wide feature of credit organization.

RURAL SAVINGS : RECOMMENDATIONS

BEFORE considering whether rural savings can be better mobilized, it is necessary to ask among whom and to what extent they exist. No more than a broad indication is here attempted by way of answer to this question. For a detailed exposition of the Survey data on this subject, reference is invited to Volume I of the Committee's Report.

SURVEY DATA

2. We may first turn to those aspects of the cultivator's expenditure which may be regarded as relatable to his gross savings. Of relevance in this context is capital investment out of current income and past savings. The proportion of rural families who reported financial investment was significantly low; so also was the size of the investment. During the Survey year, investment in the form of shares, deposits, etc., from owned resources amounted, on an average, to less than Rs 4 per family, barring 2 regions where it ranged around Rs 10 per family. It was also observed that a substantial proportion of the total expenditure on such items of financial investment was, as a rule, accounted for by the topmost decile of the cultivators. For these, that is to say, for the big cultivators, the relevant proportion ranged from 40 per cent to 90 per cent in most regions, whereas the medium cultivators accounted for less than 20 per cent and the small cultivators for hardly 5 per cent.

• The position was similar in regard to funds estimated to have been invested by rural families in lendings. On an average, the estimated lendings per family amounted to Rs 42. Recalling a distinction drawn in Chapter II, we may also observe that average investment in the form of lending was, in general, larger in the monetized areas than in the regions of subsistence economy. In most regions the big cultivators, as lenders,

accounted on an average for about 30 per cent to 60 per cent of the total dues; the large cultivators (top 30 per cent) reported about 60 per cent to 80 per cent of the dues; the share of the medium cultivators ranged between 10 per cent and 30 per cent, and that of the small cultivators was around 10 per cent.

SOME IMPORTANT CONSIDERATIONS

3. In view of the many suggestions for mobilization of rural savings that appear from time to time, it is in our view important to recognize some important considerations:

1. The need to make rural savings *possible* (e.g., by economic development and credit extension of the types we have mentioned) is much more important than to render rural savings *available* (by 'mobilization' of different kinds).

2. To the extent they exist, rural savings are most likely to be rendered available where most seen to be used for rural needs.

3. Rural savings fall so short of rural needs, that they must be supplemented from, not diverted to, urban areas.

CO-OPERATIVE MOVEMENT AND SAVINGS

4. The encouragement of savings, one of the foremost aims of the co-operative credit movement, has also been one of its most intractable problems. Savings, it was hoped, would come through thrift; but thrift, it does not seem to have been quite realized, is a business-like quality of which the first implication is the existence of business. We believe that thrift will have meaning only if conditions pre-exist such as it is the objective of our recommendations to help to bring about. Moreover, no agency, co-operative or other, can hope for success in this context unless it is one which inspires confidence and evokes local interest. So far as the primary society is concerned, we have already recommended that it should, as far as possible, be reorganized as a larger unit. If it is so reconstituted, and if at the same time it derives strength from the central co-operative bank and other co-operative institutions with which it will be affiliated, its ability to attract savings should be very greatly enhanced.

There are four specific ways in which the primary credit society, the central co-operative bank, the central land mortgage bank, and the marketing, processing and other societies, should be able not only to mobilize savings, but to do so on a much larger scale than hitherto, in the type of co-operative structure which we envisage in this Report. These are connected with the suggestions already made regarding (1) chit funds; (2) retirement of Government capital in co-operative banks etc.; (3) development of co-operative marketing, processing and other forms of economic activity; and (4) co-operative debentures of land mortgage banks.

CHIT FUNDS

5. With the adoption of a system of chit funds on the lines generally indicated in Chapter 19, it ought to be possible for the larger-sized primary credit society to attract and mobilize, in part, the savings of a much wider section of the rural population than the primary credit society has had occasion even to deal with so far, let alone dealing with them or with its own small membership in such a manner as to encourage thrift and savings.

RETIREMENT OF GOVERNMENT CAPITAL

6. Another important way in which we consider that savings may be mobilized by co-operative organizations at the village, taluka and district levels is by the operation of the process of retirement of that part of their capital which is directly or indirectly subscribed by Government. This should be an important means of attracting savings from the members of co-operative societies, provided it is not, as a method, confined to credit societies, but is part of a system which extends to, and is in particular intended for, those other co-operative societies, at all levels, which are concerned with processing, marketing, etc.

CO-OPERATIVE ACTIVITY CONNECTED WITH PRODUCTION

7. The third way in which savings could be mobilized in the type of co-operative structure we envisage is through the

association of the villager with economic activities connected with his own production. The scale of compulsory addition to share capital of marketing and processing societies, etc., should be suitably prescribed; it may, for example, be a percentage of the turnover of the transactions made through the society by a member or, alternatively, a percentage of the accommodation he may have previously obtained in the form of a loan from a connected credit society. In the aggregate, and as development on these lines proceeds, this should be an extremely significant way of mobilizing rural savings.

CO-OPERATIVE DEBENTURES

8. Fourthly, we consider that co-operative debentures hold out prospects of attracting rural savings in an appreciable measure. We have elsewhere recommended that the debentures of land mortgage banks should be varied in period so as to suit the conditions of the money market; we have also recommended that the Reserve Bank and the State Bank of India should take steps to encourage a market for such debentures. Further, we have made a suggestion, which we consider very important, in regard to the institution of an altogether new type of land mortgage bank debenture, namely, one intended for the rural areas. These 'rural debentures' should, as far as possible, be for specific projects of development in which the villager is interested in different degrees, according as they are of direct benefit to him, or of benefit to those with whom he shares a fellowship of interest because of their belonging to his district or region or State. These rural debentures should, as far as possible, be issued at the time of harvest and sale of crop when money is available with the agricultural classes. So also, in regard to period of repayment etc., these debentures should be so designed as to suit the requirements of the rural investor.

We have already stressed the need for a positive policy being followed by the Reserve Bank and the State Bank, in regard to the creation of an effective market for the debentures of land mortgage banks. We would suggest that the Reserve Bank should agree to give accommodation on debentures of land mortgage banks as readily as on other forms of acceptable security.

REMITTANCE FACILITIES

9. We would draw attention to the importance of remittance facilities in the context of mobilization of savings by the co-operative agency. We have recommended arrangements which imply considerable liberalization of remittance facilities. We hope that these will be extremely cheap as a result of a considerable increase in the number of currency chests with the establishment of the State Bank and its subsequent expansion; but we would go farther and recommend that in suitable areas, if not indeed everywhere, co-operative banks should be given *free* remittance facilities. The justification for this is indeed very great. In the structure which we have recommended, Government itself will be the major partner of the co-operative credit movement at several levels. It is only appropriate, in this context, that the co-operative credit system should be provided with the facility of free remittance.

GOVERNMENT AND RURAL SAVINGS

10. We may next consider the role of Government in the matter of mobilizing savings from the rural areas. An effort has been made by some States in recent years to float loans for purposes specifically connected with projects of local development. We would emphasize the need for co-ordinating such loans with the co-operative and other loans needed for economic development in areas comprised in the State. Broadly, we would suggest that the State loans should be designed to mobilize savings from urban and semi-urban areas, rather than from the rural areas. These latter should be left to be drawn upon by land mortgage banks and co-operative societies for the purposes of production and for supplying to the private sector of agriculture that which is complementary to the funds needed by the State for its own effort in the public sector.

'MOBILE BANKS'

11. A suggestion which is made from time to time is that 'mobile banks' should be maintained and run by commercial banks, as a means of tapping rural savings. We are of the view

that any experiment of this kind should be strictly restricted to areas presenting no near prospect of development of co-operative credit. From such areas, again, we would exclude those which must be the special responsibility of Government on account of their economic backwardness or of their being inhabited by backward tribes or classes. If, after that, any area is still left which is regarded as suitable for experimentation of the kind represented by ‘ mobile banks ’, it should be stipulated that the commercial bank should undertake to advance in that area, for agricultural and allied purposes, amounts not less than the deposits it collects from the area.

FOLLOW-UP, PUBLICITY, REVIEW AND RESEARCH : RECOMMENDATIONS

IT is an obvious truth that no big policies and no large programmes of action based on those policies can sustain themselves for long on initiative, finance and personnel alone. This is so even if they are looked at purely from the point of view of organization, i.e., entirely apart from the political and social support without which they cannot be started or if started will soon disappear. Since many individuals and institutions will be involved, whose purposive and co-ordinated action alone can result in the successful carrying out of the policies and programmes of the integrated scheme, there has to be constant exchange of knowledge and information as to the methods adopted, results achieved and experience gained in the promotion of the common aim with which all are concerned. Such exchange requires the proper organization of *publicity*. The assessment of each stage of performance requires an adequate apparatus of *review*. The survey and interpretation of all the factors needed to enable the formulation of further lines of policy, main and subsidiary, implies the suitably organized pursuit of *research*. By and large, as among the different State and co-operative institutions, it is in the Reserve Bank clearly that much of the research in the sphere of rural credit should be concentrated. With regard to review and publicity, each Government and institution would have to make arrangements within its own sphere of the functions and responsibilities arising from the total scheme, but even here the residuary and co-ordinating responsibility has to be with the Reserve Bank.

FOLLOW-UP OF THE SURVEY

2. Though anything comparable in scale to the present All-India Survey need not be repeated in the near future, there is a

need for a constant review—i.e., a review to be kept up year after year—of all the main features of the credit situation in the rural sector. A suitable machinery for this purpose should be devised on the basis that it will be operated by the Reserve Bank in collaboration with the Central Government, the State Governments and selected organizations, including research institutes, economics bureaux and universities. The recurring investigation, research and check-up for which this machinery would be responsible should broadly correspond to the lines of enquiry pursued in the Rural Credit Survey. On the basis of the findings of continual expert investigations of this kind, policies and measures should be modulated to important changes in circumstances. Where necessary, special steps of prevention or remedy should be taken before any great mischief has been done.

For the 'selected' districts of the Survey, 'District Reports' have already been prepared in draft form. A small section should be organized in the Division of Rural Economics of the Department of Research and Statistics of the Reserve Bank for devoting uninterrupted attention to further work on the drafts of the District Reports and bringing out speedily the publishable Reports. Besides the District Reports, individual statistical statements or research papers or other forms of embodiment of useful material should be brought out from time to time by the Division of Rural Economics.

FUTURE LINES OF PUBLICITY ETC.

3. That brings us to the question of those requirements of sound organization which should govern the interrelations in the Reserve Bank between the different divisions and subdivisions of functions represented by (1) collection, compilation and publication; (2) study, assessment and review; and (3) investigation, analysis and research. These functions, to the extent they are at present exercised, are split up between the Agricultural Credit Department and the Division of Rural Economics of the Department of Research and Statistics. We may start by ignoring, for the moment, the existing organizational division, between the Agricultural Credit Department and the Division of Rural Economics, of the duties here relevant,

and attempt an empirical classification of the individual tasks involved. These may be said to be:

1. Compilation of statistical material for publication of statistical statements and use by the Bank for decisions and policies;
2. Compilation of statistical as well as other material for publication of reviews on the co-operative movement and use by the Bank for decisions and policies;
3. Study of specific problems on the basis of such material for publication of *ad hoc* monographs on different subjects connected with the co-operative movement or use by the Bank for decisions and policies;
4. Study of Indian as well as foreign literature for bringing out monographs on different subjects of interest and utility to the Indian co-operative movement;
5. Publication of official or departmental brochures;
6. Publications intended to influence wider policy, with especial reference to the co-operative credit movement;
7. Publication of periodical bulletins;
8. Investigation, analysis and research, i.e., 'research' properly so called, properly organized, and properly directed in application to problems of practical importance;
9. Publication of the results of such research.

4. We are of the opinion that some of these functions need to be more clearly defined to itself by the Bank and more definitely related to the practical needs and implications of policies actually in operation or in the course of evolution and formulation. We would suggest the following main ways in which the scope and content, and to some extent the manner and detail, of these functions require modification. First, statistical and other material should be so compiled as to enable it to be judged whether effort is proceeding in conformity with policies decided upon by Government and, in particular, whether the benefit of the enlargement of credit and of co-operative economic activity is in fact reaching a wider range of cultivators especially at the middle or at the far end of the economic scale. Secondly, the statistics now collected by the Reserve Bank in the context of rural credit tend to be confined, by and large, to the co-operative credit movement and do not cover details

in regard to other agencies such as the Central and State Governments and commercial banks. The Reserve Bank should suggest to each agency, and persuade it to accept, the appropriate reforms in the mode and adequacy of the collection, compilation and presentation of information. Thirdly, research in rural credit and economics will have to be both better and more extensively organized in the Bank, just as it requires, in its actual working, to be more usefully and intimately associated with problems of practical importance.

OTHER MATTERS: ASSUMPTIONS, SUGGESTIONS AND RECOMMENDATIONS

THE residuary group of items included in this chapter differs in one important respect from our previous recommendations. The items themselves are intimately, some of them vitally, connected with rural credit and with the success of any scheme formulated for the development of rural credit; yet, they do not bear that relation to the actual scope of our enquiry which would enable, or justify, our classing them with our more concrete and more detailed recommendations. Hence, when we do happen to make a 'recommendation' in this chapter, what is recommended is either a broad course of action as seemingly appropriate or a particular line of enquiry as likely to be promising. In most cases, however, what we make are suggestions rather than recommendations. Finally, where the subject is of great importance, but too wide for even suggestions to be usefully made in the specific context of this enquiry, we merely state the particular assumption which underlies the integrated scheme and conditions its successful working.

AGRICULTURAL PRICES

2. The best system of credit will suffer if prices fall sharply. Underlying all our recommendations is the important assumption that Government's price policies will be such as to ensure the stability of agricultural earnings and therefore the stability of agricultural credit. It is no part of our task to go beyond this assumption and indicate the detailed features or even essentials of an overall economic policy which, besides other things, will provide for this important requirement. We will content ourselves with pointing out again, as regards price support, in the event of the need for it arising, that there will be, as part of the machinery of implementation, an important instrument of

policy in the widespread network of godowns, warehouses and storage accommodation, together with an organized structure of co-operative processing and marketing, which will have been established all over the country if one of our main recommendations is accepted and carried out. The same is true of the reverse contingency of a policy of price control. To the extent that Government decides to seek to influence agricultural prices in either direction by itself entering the market on a large scale, the first and most important step in the operation is the purchase of the produce of the cultivator. In either case, obviously, there has to be an adequate administrative machinery; but there will also be needed the sheer physical accommodation for storage of grain all over the country.

FORWARD MARKETS

3. On the subject of price fluctuation, there is a specific suggestion we would add to the assumption we have made as to policy. It concerns the role of forward commodity markets in the context of price variations as they affect the cultivator's produce. These markets have, in a legislative (though not yet in a detailed organizational or administrative) sense, been recently brought under some measure of State control on an all-India basis by the passing of the Forward Contracts (Regulation) Act, 1952. We consider it important that an adequate enquiry should be conducted for ascertaining (1) the extent to which damage, if any, is caused by forward markets to the interests of the rural producer, and, if the damage is appreciable, what measures are needed to prevent it; and (2) whether these institutions can be so re-designed and controlled, as not only not to do harm to the cultivator (if that is the present position), but to be of positive benefit to him, in the context, especially, of his economic activities being reorganized under State partnership in the manner recommended in this Report.

FAMINE FUNDS

4. On one other aspect of price fluctuation, namely, its effect on co-operative agricultural credit and on the need therefore to make arrangements for stabilization of such credit, we have already made recommendations such as those connected with

the National Agricultural Credit (Stabilization) Fund in the Reserve Bank and corresponding Funds in the state co-operative banks etc. For that stage of need where the remedy has to be relief to, and not merely stabilization of, the credit institution, we have recommended establishment of the National Agricultural Credit (Relief and Guarantee) Fund with the Government of India and of corresponding Funds with the State Governments. These steps which, as we have said, are confined to credit, should perhaps have as their logical complement similar steps designed to meet the wider economic dislocation caused by famine, flood, etc. There are of course Famine Funds in a number of States. In certain States at any rate, these Funds cannot be regarded as really adequate. We therefore suggest investigation of the need (1) for increasing the State Famine Funds; (2) for instituting such Funds in States which have not hitherto established them; and above all (3) for the Government of India to institute an adequate Central Famine Fund in order that individual States may be helped by loans etc., to tide over the difficulties created by any acute or recurring conditions of famine or scarcity, or some grave disaster such as a severe and extensive flood.

CROP AND CATTLE INSURANCE

5. Crop failure, without being so widespread as to constitute scarcity, much less of course famine, may yet in a restricted area be as severe in its effects on individual cultivators or individual villagers. If State relief can mitigate the effects of the former, can some form of State insurance be devised to reduce the hardship caused by crop failure? The Co-operative Planning Committee observe: "Crop insurance in India in the present circumstances appears . . . beyond the scope of private agencies or co-operative organizations, firstly by reason of the lack of reliable statistical data and secondly because of the inability of the peasantry to bear the incidence of its cost." The Committee nevertheless go on to suggest that "some scheme will have to be devised in course of time to protect the agricultural classes from the risk occasioned by the loss of their crops . . ."¹ We ourselves believe that until the economic

¹ *Report of the Co-operative Planning Committee, 1946, pp. 152-3.*

condition of the cultivator is first raised by measures such as those we have recommended, technological devices against floods adopted on a wide scale, irrigation so extended that large tracts of the country are less and less dependent on rain and more and more on assured water supply, the vital problem of soil conservation tackled on a country-wide scale, and various other measures taken such as more effective protection against pests, the total amount of risk involved in crop failure in Indian conditions is so great, and the resources wherewith to cover that risk so small, that it would be unrealistic to think that any worth-while scheme of crop insurance can be initiated by the State anywhere in the near future.

On cattle insurance too, the Co-operative Planning Committee have made certain suggestions. They think that an experiment might be useful, and if successful could be extended; their recommendation is that the State should undertake the experiment to start with and the co-operatives last of all. Here again, it would be more realistic to concentrate on schemes for strengthening the veterinary departments of State Governments so that cattle epidemics are better controlled, as well as on schemes for breeding better cattle, organizing dairy co-operatives (which provide an incentive for such improvement), and so on.

VILLAGE ROADS

6. Deplorably absent as a rule, and deplorably bad if and where present, these communications, absent and present alike, are most deplorable when considered as the hiatus which they in fact represent between field and market. It is the cultivator who pays for the lack of development; the low priority assigned to this item is at high cost to him. We would suggest the allocation of large funds and the diversion of a large effort to the improvement of village roads and in particular the allotment of a high priority to those communications which connect the villages to their marketing centres.

TRANSPORT CHARGES

7. The features which we have just noticed may be described as characteristic of transport conditions as well. State-owned bus transport has begun to operate in varying extent in different

States; but these buses have not yet taken up transport of goods and produce on any appreciable scale. There are large rural tracts which are not served by the railway system. We recommend that transport conditions should be reviewed in relation to rural areas. We would also suggest an immediate examination of the rates which railways, State buses, etc., charge for the transport of the cultivators' produce to the consuming areas, with a view to considering what reductions may be given effect to, without delay, in the rates now charged.

A similar review, to the extent the State can influence the position, should be undertaken in regard to the rates charged by boat and steamer services wherever the sea and rivers and canals are the main means of transport. What we have stated above regarding roads in the rural areas also applies to bridges, ferries, etc., which in many tracts of the country are grievously neglected after construction or have never been constructed at all. We suggest that these too be taken into account in a more determined and much more adequately financed programme for the improvement of rural communications.

In this connexion may be mentioned the existence of co-operative organizations for transport etc., some of which have been referred to by the Co-operative Planning Committee in their Report. That Committee recommended *inter alia* that co-operative transport societies should be encouraged, co-operative workshops set up for servicing motor transport and, in certain areas of the country, transport by country-craft organized, as far as possible, on a co-operative basis. We endorse these suggestions.

FINANCE FOR RURAL INDUSTRIES

8. The last category of items in this chapter concerns the important subject of finance for cottage and small-scale industries in the rural area. We may consider the question of finance from the point of view of (1) cottage industries organized on a co-operative basis and (2) those not so organized. The latter present certain problems which are common to the whole sector of medium-scale and small-scale industry, urban as well as rural. We would only point out that the establishment of the State Bank of India, with branches going down to the interior

of the district, may prove to be of some assistance in devising institutional remedies for difficulties connected with short-term finance for these industries, just as the state financial corporations are likely to be of help to them for medium and long-term finance. Here, however, we propose to confine ourselves mainly to such cottage industries as are, or can with advantage be, co-operatively organized. To take the most important of the cottage industries, it may be said of the handloom industry that almost all the committees etc., which have investigated its problems of finance and rehabilitation have come to the conclusion that the most suitable way of reorganizing the industry would be the co-operative one. At this point, however, arise several difficulties, for it has been found that it is no easy matter either to get a large part of the industry, or a large number of the different economic and other stages and processes connected with it, into a co-operative form of organization. We would hazard the suggestion that, making allowance for certain obvious differences, many of these difficulties will be found to have a parallel in the problems we have studied in connexion with the organization on a co-operative basis of agricultural credit, agricultural economic activity, etc.

9. Taking up first those difficulties which are special to cottage industries, as distinguished from agriculture, three main items are obvious: (1) Cottage industries have to face the competition of larger, better organized and technically much more competent manufacturing industries. (2) The market for cottage industries is much less assured than for the agricultural industry. (3) The other important special problem for many cottage industries is the finding of the raw material.

10. Apart from these items, all of them grave and all of them important, the nature of the difficulties seems essentially the same for cottage industries as for agriculture when looked at from the point of view of the reorganization and rehabilitation of the industry on a co-operative basis. The main and still largely unsolved problem for co-operative cottage industry is, we suggest, the same that has been faced by co-operative agriculture, namely, how to make a combination of the very weak strong enough in relation to the much stronger. Just as there is

the moneylender in the sphere of agricultural credit, so there is the *karkhanadar* for each important cottage industry, with the difference that he combines in himself the handicraftsman and the financier. The *karkhanadar* is himself part of a wider system of private finance. It will be futile in the context of the powerful competition of the middleman, the master-weaver, the yarn-merchant, etc., to hope that the weavers can, with mere administrative encouragement or (as seems to be now done) even the giving of loans for their subscribing to the share capital of societies, be able to form themselves into a strong co-operative organization which is able to compete with the other interests. It seems to us that the problems of the medium and small handloom weavers should be sought to be solved on somewhat the same lines as we have suggested in respect of the medium and small cultivator. In other words, Government should enter as a financial partner, besides providing the requisite administrative, technical and other assistance. It is only then that it will be possible to get the weavers together into a powerful co-operative body which can hope to compete with the other agencies. What applies to handloom seems to us also to apply to other cottage industries; we recommend its being examined, in relation to the more important of these, whether any real progress is possible without similar programmes of State partnership and State participation.

CAPITAL AND CREDIT NEEDS

II. As regards credit arrangements, we have already indicated in some of the foregoing chapters that all sectors of co-operative credit, and not merely co-operative agricultural credit, should be included within the scope of the state-cum-co-operative credit institutions we have recommended, including the larger-sized primary credit societies at the base. The consideration that Government will be the major partner in these institutions is an additional argument for not attempting to establish a parallel credit structure either for co-operative cottage industry or for any other economic sector of Co-operation at any of the different levels involved.

It is necessary to consider the credit needs in question from the point of view of the periods involved—i.e., short-term credit,

medium-term credit, etc.—and to examine the possibilities of co-ordination between the different credit agencies associated with Government which cater for different needs of this kind. In doing so, it would be convenient to relate our suggestions not merely to co-operative cottage industries but to the other rural industries, for example, processing of agricultural commodities, which we have recommended should be promoted on a state-cum-co-operative basis. The two categories, both of them rural and both of them co-operative, are therefore (1) co-operative agricultural industries such as processing, dairying, etc., and (2) co-operative non-agricultural industries such as handloom, leather goods, etc. We may consider, in respect of both these, the types of credit needs which exist and the types of credit institutions that are available.

It is necessary to distinguish between two types of capital and credit requirements. First of all, there is the need for block capital consisting of share capital and borrowed (long-term or medium-term) capital for setting up the co-operative plant etc. The second is the need for working capital, that is to say, capital for buying raw material, paying wages, and so on. As regards block capital, firstly we have recommended for agricultural industries (such as those for processing) that the State should put in the balance of share capital after the co-operatives have subscribed. For other requirements of long-term and medium-term capital we have today the state financial corporations in some States, together with the prospect of their being established in many of the remaining States. We suggest the desirability of the state financial corporations adopting a positive policy of assisting by loans the development of co-operative agricultural and industrial enterprises, so long as these are in and for rural areas. The state financial corporations are not, as a rule, designed to give short-term credit and, therefore, the need for working capital must ordinarily be met from other institutions.

For working capital, it is to the state co-operative banks, central banks, etc., that these industries should turn. Industrial co-operative banks would not only be a duplication, but are likely to be a weak and unnecessary duplication. This implies a positive obligation on the state-cum-co-operative credit structure we have suggested. The structure (or the State on its

behalf) should recruit and train the technical staff necessary for dealing with agricultural, cottage and small-scale industries in relation to their short-term, and in some degree their medium-term, credit needs. It will be needless for each of the different kinds of institutions we have been considering, especially where they are in the same State, to attempt to build up all the different types of technical personnel itself. There should be considerable co-ordination and exchange of part-time services of technical personnel between these institutions, e.g., between the state financial corporation and the state co-operative bank.

RESERVE BANK FINANCE

12. If proper provision is made for the technical and financial assessment of the borrowing industrial units, and if sound business methods are evolved by the co-operative banks when dealing with such units, we believe that, for the more important cottage industries at any rate—and these we hope the Reserve Bank will put in its approved list for the purposes of section 17(2)(bb) of its Act—there might be envisaged a reasonable supply of short-term finance from the Reserve Bank as well as by the mobilization of such local and other resources as may be open to the co-operatives.

It is clear that, in this field, there is considerable scope for planning and co-ordination and that the Reserve Bank, the state financial corporations, the industrial co-operatives and the co-operative credit institutions will have to work in close conjunction. We recommend that, so far as the development on the credit side of these industries is concerned, the Reserve Bank should play an active part, and assist not only in establishing sound practices and conventions, but also in promoting the requisite forms of co-operative organization at the different levels.

PROBLEMS FOR INVESTIGATION

13. These, of course, are no more than broad suggestions. The planned provision of different types of finance for cottage industries, which can only be in conjunction with a planned

programme of development of those industries, will require thorough investigation by a competent body before a scheme of credit for cottage industries, co-ordinated with that for co-operative agricultural credit, can be worked out in detail. Thus the whole matter of credit arrangements for cottage industries should be enquired into, after taking into account the lines indicated by us. We venture to say that unless the more fundamental aspects of the problem are re-investigated in the light of an analysis analogous to that which we have attempted in this Report in respect of agricultural credit, there is some danger of the more superficial, more orthodox and more conservative solutions tending to be adopted and its being found eventually that no real impression has been made on the problem.

STATE PARTNERSHIP

14. We have already stressed the importance of the differences between cottage industries on the one side and agriculture on the other in regard to arrangements for marketing and for procurement of raw material. Here again, the most needed line of development might turn out to be that of establishment of state-partnered co-operative institutions covering each of the more important aspects of the rural economic activity connected with the particular industry. A few developments are in fact taking place on these lines, e.g., the establishment of a co-operative spinning mill, with active State help, at Guntakal in the Andhra State.

APPROACHES TO THE LARGER PROBLEM: CONSTITUTIONAL AND OTHER OBJECTIVES

IN the foregoing chapters we have viewed rural credit as much more than a technical problem of restricted significance. If our analysis and proposals have validity in the context of the wider interpretation we have put on the problem, they must also fit into the even larger context of the total task before the country and be equally valid in relation to the main approaches to that task. The principal objectives of such a task may be derived from the Constitution which the nation has adopted for itself.

WEAKER CLASSES

2. One of the foremost of the objectives of the Constitution is the welfare of the weaker sections. The medium and small cultivator, the agricultural labourer, the village handicraftsman, the small-scale industrial worker, the industrial labourer, the small operator in industry and transport and the lower middle class—all these share three significant characteristics which justify a prior claim on the attention of a democratic and planning State: they are numerically large, economically important and socially disadvantaged. To these must be added, as another special concern of the State, the backward classes and tribes whose degree of disability, both social and economic, is so great that the Constitution enjoins it on the State to pay them special attention. In all or most of these cases, neither legislation nor mere administrative and educational efforts, however extended, will by themselves help to solve a problem of welfare which essentially arises from grave disadvantages which are rooted in past development and have become part of the socio-economic structure of the country. If this statement is correct, then it has to be assumed that the future plan will embody measures for the diminution and eventual removal of these disadvantages; it may further be assumed that such measures, since they will

otherwise fail of their purpose, will be concerted, nation-wide, state-sponsored and to the extent necessary, state-financed. Of a plan which is based on such an approach to this important aspect of the total problem and which embodies such measures, we submit that the proposals made in this Report in the more restricted context largely of the medium and small cultivator and partly and incidentally of the handicraftsman, rural and urban, will be found to constitute a logical, necessary and integral part.

CO-OPERATIVE COMMONWEALTH

3. This proposition may be put in a different form with special reference to the rural population with which we are concerned in this Report. India has set before itself the ideal of a Co-operative Commonwealth. There can be no commonwealth without wealth for the common man. The common man of India today, as well as of tomorrow and of the day after, belongs to rural India. Predominantly he resides in rural India. Even where a lop-sided economy has in appreciable number drawn him to the big cities and enlisted him in the ranks of industrial labour, his heart and his interests continue to be in rural India. The only plan that can restore vitality to the rural economy and, on that vitality, build up the future prosperity of the common man is one which, as the first condition, imparts strength to both agricultural and rural industry. Only then, and in that process, will conditions have been brought about for the well-being of the common man, and, therefore, for the realization of a commonwealth. The process should, and with wisdom and determination can, be that of Co-operation: Co-operation, not merely in the narrower technical sense in which it has completed fifty years of existence in this country, but in the much broader conception of it as the purposive union of all the forces which work for the common good and, in particular, the Co-operation which joins together in a common purpose the united strength of the Indian village with the united strength of the Indian State.

PRIVATE ENTERPRISE AND PLANNING

4. It is not only the institutions of the State and of Co-operation that have to work conjointly if such an approach is to

be successful. The more important institutions and the more powerful individuals in the sector of private economy will either have to participate in the pursuit of the common objective or be induced to subserve that end by all constitutional means available. An economy which seeks planned development may be 'mixed' in composition; it cannot afford to be heterogeneous in purpose. The profit motive may be given its due place, but not the attitude which may be expressed in the words: "You make the plans and we make the profits." For, unfortunately, it soon happens, in the absence of conformity of purpose, that the plans interfere with the profits and the profits interfere with the plans, so that both the parties interested—the Government and the private entrepreneur—begin to protest. What is, therefore, required is the recognition of the fact that it will be much more sensible for the two to come together in a spirit of reasonableness and agree in common to the limitations on both, with perhaps an understanding that, where there is a doubt, the benefit of it will be given to the plans.

RURAL-MINDED DEVELOPMENT

5. We have elsewhere observed that, in the conditions of this country, the problem of rural credit is in reality one of *rural-minded* credit, itself a part of rural-minded development. In the enlarged context, what is needed may be said to be no less than a revolution of psychology: one which amounts to the rural orientation of all the forces that count in the country's governance and in the ordering of its economy. Not only Government, nor Government and Co-operation, but Government, Co-operation and the more powerful institutions of finance and commerce must be brought together in a common purpose for the creation of conditions in which betterment is possible for the weaker sections of a population which in great measure belongs to the villages of the country. The need for sympathetic, purposive and uninhibited contact between those who wield governmental and financial power on the one hand and the vast number, on the other, who are virtually cut off from the purview of the administratively powerful and the financially strong was at no time so much a pre-condition of national prosperity as now, in view of the terms in which that prosperity

has begun to be conceived after the nation has become independent.

CONFLICTS AND LOYALTIES

6. To the socio-economic problem which today confronts the country, the approach has necessarily to be constructive and constitutional; and if only for this reason—there are others such as, for example, are pertinent to the Indian tradition—the approach of violence and class conflict and of ‘revolution’ in terms of these two, is of course *a priori* excluded from consideration, but the gigantic constructive effort which this imposes on the State as well as the people and their institutions is the reverse of inaction, *laissez-faire* and lack of concerted purpose. All the more is it necessary, in such a context, to devise positive institutional modes of approach which, among other goals, lead to the resolution of conflict and mitigation of caste and class disparity, and the promotion of new factors of unity across the older divisions. In the village itself, nothing is so important in this context as to build up a new loyalty of production—of common economic effort in the widest sense—across the loyalties of caste and the disparities of riches, influence and economic privilege. If the cultivators of the village, medium and small included, owned, if need be along with the State, the rice mill to which the harvested paddy was taken, if they converted their sugar-cane into sugar in a factory which was co-operatively organized for them, if they were effectively served with both credit and marketing services by a rural co-operative society working in co-ordination with a co-operative marketing society at the erstwhile *mandi* and if in gradual process they combined to consolidate their holdings, or to organize a co-operative farm which reduced their expenses and increased their yield—in all these ways would be brought about a new sense of participating in common effort for the common benefit together with a new feeling of fellowship for those who shared the economic function, but not necessarily the caste, in common with themselves. In this new context, the association of the producer would not merely be with other producers, big or large, medium or small, but also with the State through their local representatives, i.e., the officials serving in the department or

deputed to the society with whose guidance and alliance, together with the assistance of the finances made available by Government, the conditions and disparities of the older order could be made gradually to disappear. Only out of such association, socially and economically beneficent, with one another and with the State, would be born that enthusiasm for development which is recognized to be absent today in most villages in India despite large-scale efforts on the part of the Administration to improve the lot of the villager. The recognition of the planning authorities that, for the next phase of the plan, the design of development should be 'from the village upwards' is itself evidence of the need to enlist the active interest of the villager in those measures for his economic benefit which today have failed to rouse him to whole-hearted participation. This want of enthusiasm is a measure not of the smallness of governmental effort but of the vastness of the socio-economic disparity which the villager senses to be the main fact which conditions his life and which the policies and programmes of Government are seen by him to have left entirely unaffected. If, then, an approach is embodied in the next plan, which first and foremost seeks to mitigate these disabilities by institutional means such as we have suggested in the form of state-partnered co-operatives for the rural producer, our recommendations in the narrower context may be said to fit into a wider approach of this kind.

PLANNING AND THE VILLAGE

7. An extremely important aspect of such an approach, in so far as the cultivator is concerned, is obviously the creation of an organization within the village which can be entrusted with the programme of production and other economic activities designed for the village as part of the bigger programme in the agricultural sector of the plan. The search for such an organization may be said to be one of the main preoccupations of the Planning Commission. If the analysis presented in this Report has some validity, the opinion may be hazarded that in most villages neither the *panchayat* nor an *ad hoc* committee would be an appropriate organization for being entrusted with this part of the task. Both these are likely to represent precisely those

elements in the village which, by and large, operate against the interests of the middle and small cultivator. Here again, the more realistic approach seems to us to be to promote in the first instance those conditions which are necessary before such an organization can function successfully in the village in the context of better farm production and better farm business. For fulfilling this prior requirement, the effort on the part of the State has to be a deliberate, concerted and nation-wide economic endeavour in combination, on a co-operative basis, with the weaker elements in the agricultural population itself. By and large, it is only State participation of this magnitude and direction that would constitute the needed approach.

ASPECTS OF THE LARGER PROBLEM: PLANNING AND ADMINISTRATION

THE programme of development outlined in this Report—the development of co-operative credit, of co-operative marketing, processing and other economic activity, and of rural banking in order to facilitate the other two types of development—is concerned with the two main classes of rural producer: with the cultivator mainly, and with the handicraftsman incidentally. In the context of future planning, it may be assumed that, for the first, there will be an even bigger programme of agricultural production; and for the second, a large-scale programme for the development of cottage industries. For both, it may be further assumed that the next phase of the programme will be governed by the announced concept of planning upwards from the village. Mention has been made in the last chapter of the search for a suitable body inside the village which can take up and pursue a programme of agricultural development in which all the cultivators of the village can participate. This search for an appropriate village organization is symbolical of the wider effort to convert the present more or less super-imposed programme of economic improvement into something more in the nature of an organic development from within the village itself. From what point or nucleus shall this body of villagers be built up: from non-existent co-operative society, notional production council, factious *panchayat* or, ignoring all these, from just an *ad hoc* committee in the village? The problem has not been solved because it is largely insoluble in present conditions. The search, as already indicated, is for something which can only emerge if the conditions requisite for it are first created by a state-partnered programme which, among other things, includes important aspects of agricultural economic activity besides credit facilities for that activity; it will not materialize as the result of any mere programme for extension, supervision and administration. In the sphere of rural industry, the new plan will come up, not only against a combination of

all these obstacles, but in addition the fundamental difficulty of promoting and sustaining small units of production which, in respect of most of the types of goods they produce, will be confronted with the competition of the much larger units of urban industry which are both better organized and, in their technical aspects, more advanced and progressive. It may be assumed that this effort will nevertheless be made and the needed lines of development formulated in the programme for the second five year period. About the supreme importance of such an effort there can be no doubt, for it will be directed towards the fulfilment of a vital requirement of both the unemployed and the under-employed in the rural area, whether cultivator, handicraftsman or labourer. Indeed, the accord of priority to rural industry over most forms of urban industry is already implicit in both Plan and Constitution.

ADMINISTRATION

2. Besides Planning, an important aspect of the larger context with which we are concerned, by reason of the bearing which it has on our recommendations, is Administration. We have elsewhere made various suggestions which come under this head. From the standpoint of a programme such as is here envisaged, the reorganization required in respect of the co-operative departments alone will be considerable. But the administrative problem in the larger context, in so far as it has relevance to co-ordinated programmes of national development of which this may be regarded as a part, is much wider than reorganization of co-operative departments or the training of the personnel of those and other departments and institutions. The particular items to which we propose to confine our brief remarks in this chapter are: (1) the selection and training of the personnel concerned with such programmes; (2) the effectiveness of implementation as ensured by supervision; and (3) the wider question of reorganization at different levels in the context of development.

RESPONSIVENESS

3. As we have already emphasized, not only the training but also the recruitment of the personnel will have to be looked at

from the point of view of the new functions. Thus, a capacity for sympathy, understanding and responsiveness, in the sense in which we have used those terms in relation to the rural environment and to the needs of different rural classes, should be among the qualities to which importance should be attached in recruiting new candidates. To the extent that official attitudes are rigid, unresponsive and unimaginative, they will stultify progress in every one of the directions envisaged. In particular, they will be fatal to the objective of evolving state-partnered co-operative institutions, especially at the rural level, into fully co-operative institutions at the earliest possible stage.

HONESTY AND EFFICIENCY

4. Besides sympathy and informed responsiveness, two important requirements are obviously honesty and efficiency. On the latter it is needless to dwell. There is evident in India today a sad lack of honesty in different degrees and at different levels of administration and governance. In a programme for the positive economic benefit of the weaker, in conditions in which certain sections of the rich and the powerful will ever be interested in the failure of the programme, it is more than ordinarily necessary that the strictest honesty should be enforced and dishonesty punished.

SUPERVISION

5. On the need for ensuring by efficient supervision that there has been actual implementation, we would observe that there are two big illusions in India which too often take away people's thoughts, often involuntarily, from the realities of action and effect. These are the legislative and administrative illusions. Legislation says, 'This shall be done', and after such interval as may be dictated by propriety, expediency or sometimes sheer inefficiency, Administration answers back, 'That has been done'. While Legislation and Administration thus proceed from one exchange to another, the old realities often continue their former sway. In the context of development, the failure to translate into administrative reality what has been laid down as governmental policy would vitiate all programmes except

on paper. The utmost importance should therefore be attached and the strictest standards of efficiency enforced in the execution of policy, and in the supervision of execution, at all levels.

RURAL NEEDS AND ADMINISTRATIVE REFORMS

6. Considering the problem of administrative reform in the extended light of the analysis and proposals contained in this Report, the most important needs may be said to be these. There is first of all the need for Government to make its administrative role in the village more and more that of a beneficent authority and less and less that of the tax-gatherer which, for the most part, it has been till recently. Secondly, again in the village, there is the need for Government to assume the function of real partnership in economic development—especially of the middle and lower groups—and not merely that of administration on the one hand or of advice and ‘extension’ on the other. Thirdly, there is the need not only to simplify development administration at the village end, as in National Extension Service, but also to achieve effective co-ordination between (1) the different administrative agencies of development, including that of local self-government and (2) those agencies and the machinery of basic administration. A large field remains to be explored in connexion with the more effective association of the local bodies of administration—*panchayats*, local boards, etc.—with local projects of planned development, e.g., those relating to minor irrigation, no less than roads, public health or primary education. As for the other and much needed co-ordination between the agencies of development and of basic administration, the proper line of reorganization would seem to be that the Collector himself should become the Chief Development Officer of the district and so too, in their respective jurisdictions, the sub-divisional revenue officials; whereas, lower down, the subordinate revenue officials should have a more restricted and specialized role than at present, the ‘general’ functions they now exercise being passed on progressively to the appropriate developmental staff. There will then be a transformation of the old order rather than the introduction into it of miscellaneous and inchoate sub-strata as at present or the replacement of it altogether by a wholly untried

new order. At a higher level, in the secretariats of State Governments, a tentative line of reorganization, which suggests itself (for the bigger States at any rate), is that the Chief Secretary should be assisted by two additional Secretaries (or other top-ranking secretariat officials), one in charge of basic administration in its more general aspects (such as organization and methods) and the other in charge of all items of development which are of importance to the rural area and of other items intimately connected therewith, the main subjects thus co-ordinated at the very highest level in the secretariat being (1) Agriculture; (2) Co-operation; (3) Cottage Industries; and (4) Industries. The main requirements are that, for purposes of formulation and administration of policy at the State secretariat level, Co-operation should be treated as an organic part of 'rural development' in all its main aspects; that administration of that development as a whole should be intimately co-ordinated with basic administration; and that the two together should be placed at the highest point of responsibility and co-ordination in the secretariat. An administrative arrangement which effectively provides for these requirements seems essential for the effective pursuit of a programme of rural development which includes, among other things, schemes of the nature and order we have recommended for the fostering of co-operative credit and co-operative economic activity in the rural areas.

CONCLUSION

THERE are two main facts about India : religion and poverty. It would be as foolish to ignore the one as the other. No endeavour that is great is likely to succeed in India unless the springs of action are derived from the living fount of religious feeling. No aim of the State in India can be so great as the abolition of poverty. In the pursuit of this aim, everything will fall short of success which gives only lip recognition to India's spiritual traditions and lip sympathy to India's poverty. There are signs today that not only the political consciousness, but the much deeper and more abiding spiritual awareness, of the country has been stirred to action by the distress and the inequality which have resided so long in its thousands of villages. Of extreme importance to India is the question whether all forces of enlightenment, spiritual, religious and social, no less than political, administrative and technical, will come together in a common pursuit, both informed and determined, of the economic good of the country.

Any considered thesis concerning rural credit in India cannot help being in essence, though not in detailed exposition, a part of a much larger thesis concerning the economic good of India. This is inevitable because rural credit, seemingly both narrow and technical as a subject of enquiry, is in reality neither of these. In extent, it is as wide as rural society, which means practically as wide as the Indian nation. In content, it embraces all economic activities and purposes as they affect rural society, for credit is only a layer of such activities and has organic purpose only in so far as those activities have an organic purpose. Assuming this larger purpose to have the twofold aspect of achieving wealth and securing its equitable distribution, a programme of rural credit becomes inseparable, in its underlying concepts, not only from the end which is economic good, but from the means to be employed in the attainment of the end. Those means, to be significant for India, have to conform to the values of the Indian tradition. One feature of that tradition may be recalled. At widely different times and in

widely different parts of the country there have arisen religious leaders in India whose aim was spiritual good and whose endeavour it was to place within the reach of all the means of achieving such good. Each such effort was non-violently conceived and non-violently conducted; it had the appeal and motive force of a mission; and, not infrequently, its organization bore signs of careful forethought and attention. Essentially the same means, employed in the pursuit of economic good, have perhaps this difference, that they hold greater promise of attaining the object postulated. For one thing, there is nothing yet in human history to disprove—just as there is nothing in it yet to demonstrate—that economic welfare in its highest sense cannot be achieved, even where it is most lacking, by the planned, deliberate and organized effort of a Government, relentless as to purpose but not ruthless as to means, provided the effort is not only emotionally impelled but is scientifically guided. In this latter aspect, a whole apparatus of technique, knowledge and research, comparatively recent and painstakingly accumulated, is available to Governments, if only they will make use of it, through the development of the social sciences of economics and sociology and of the science no less than art of public administration. It is irrelevant whether economic good is or is not a lesser objective than spiritual good. The fact remains that economic good is the highest practicable objective so far as Governments are concerned. In India, the process of increasing and more equitably distributing the economic good must, on purely rational grounds, be conceived in terms of rural India. The larger thesis, in which our concrete recommendations can find place only as a part, is that what India most needs today is a comprehensive and determined programme of rural regeneration which has the ethical impulse and emotional momentum of its highest traditions; which has, moreover, the calculated design of a project that is scientifically conceived and scientifically organized; and which, above all, attempts to render to rural India, in the economic realm, those opportunities for growth and fulfilment which, without distinction between man and man, but with especial compassion for the weak and the disadvantaged, more than one religious leader at more than one period of the country's history attempted to render to the masses of India in the realm of the spirit.

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